

## **ROLE OF THE LEARNING ORGANISATION PARADIGM IN IMPROVING INTELLECTUAL CAPITAL**

**JJ Pienaar** (Centre for Information and Knowledge Management,  
University of Johannesburg)

**ASA du Toit** (Centre for Information and Knowledge Management,  
University of Johannesburg)

The purpose of this research is to determine to what extent intellectual capital is recognised and developed in the South African horseracing industry. The industry can be defined as an oligopoly, with Phumelela and Gold Circle the key organisations. Phumelela and Gold Circle's intellectual capital recognition and development is examined and compared. Intellectual capital is defined according to three categories – human, structural and relational capital. Intellectual capital's organisational importance is also discussed. The empirical study is conducted by examining the annual reports and financial statements of Phumelela and Gold Circle. Specific structured interviews with key industry role players are also referred to. Recommendations are made to assist in the industry's task of managing and developing intellectual capital.

*Key phrases: Intellectual capital management, horseracing industry*

### **INTRODUCTION**

The way in which organisations should compete and operate has changed in recent years. There has been a paradigm shift in what should be done to realise and sustain competitiveness. Because of this shift, the daunting nature of achieving organisational goals is becoming less so. The reason for this is based on an underutilised resource – knowledge. In the knowledge economy, intellectual capital and knowledge are more important as an economy wealth production factor than traditional physical assets (Seetharaman, Bin Zany Sooria & Saravanan 2002:128). The idea of the knowledge economy is based on organisations, individuals and national economies using intangible assets to survive and prosper. The environment is focused on creating, sharing, adapting and using knowledge and intellectual capital in such a fashion that newer, more innovative products and services are developed and implemented more efficiently, and better decisions are made. The implication is that, looking at knowledge in an intellectual capital framework, it can be defined more clearly as an organisational resource. This illustrates knowledge and intellectual capital's importance in today's economy – taking an intangible resource to achieve tangible results.

The research question addressed in this article is: 'How is intellectual capital perceived and developed in the South African horseracing industry?' The research examines the importance of intellectual capital in an organisation and to what extent organisations in the South African horseracing industry recognise and develop intellectual capital so that competitive advantage and organisational survival and prosperity are sustained and developed.

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## INTELLECTUAL CAPITAL

Bollen, Vergauwen and Schnieders (2005:1164) summarise intellectual capital as 'the collection of intangible resources and their flows, where intangible resources contribute to the value creating process of the company and are under control of the company'. Intellectual capital can be regarded as unaccounted capital or knowledge-based equity that supports the knowledge-based assets of an organisation (Abeysekera 2006:61) and consists of the intangible assets of skills, knowledge and information systems (Abdolmohammadi 2005:398).

The focus of intellectual capital is that of intangible assets. Though in definitions this relates to knowledge in general, it should be noted that intellectual capital is knowledge placed in a business context. Knowledge is not necessarily organisational, whereas intellectual capital is. Also, traditional financial (or tangible) indicators are relatively easy for an organisation to measure, while intellectual capital (or intangible) indicators are more difficult. For the purpose of this research intellectual capital can be seen as all the knowledge-based or intangible assets and flows, in an organisational context, that maintain, drive, support and affect the value creation processes of an organisation. A variety of scholars divide intellectual capital into human capital, relationship/relational/customer capital, and structural/organisational capital (Andriessen 2006:103; Bontis 1998:65-67; Edvinsson & Camp 2005:114).

### Human capital

Human capital refers to an organisation's members' individual tacit knowledge, i.e. raw intelligence, expertise and skills of the individual (Bollen, Vergauwen & Schnieders 2005:1164).

Bontis (1998:65) described human capital as a combination of an individual's education, genetic inheritance, experience, and attitudes to life and business. Human capital is the capabilities of the individual. These individuals are the source of innovation and renewal in an organisation (Carson, Ranzijn, Winefield & Marsden 2004:447). Human capital can thus be defined as all the unique ideas, skills, and knowledge that an individual owns and contributes to an organisation. From this definition, human capital is a knowledge-based asset and can be developed. This is an important aspect for an organisation to focus on. When human capital improves, so does its contribution to the organisation. The issue of ownership requires emphasis when considering this development and value aspect. Knowledge (implying human capital) is not valuable to an organisation if it cannot be applied to organisational operations (St Leon 2002:149).

Human capital's value to an organisation is dependent on the willingness of the individual to contribute, improve, and innovate. The organisation has a role to present an environment in which an individual feels the need to work harder and help achieve organisational goals. The individual must see that the organisational environment is conducive to, and rewards development.

Human capital is the foundation of intellectual capital, as everything in the current market environment relies on the individual's ideas, knowledge, and skills. An organisation must continuously find ways to develop and use human capital to its full potential. Considering the value of human capital, an organisation must find ways to gain ownership of as much human capital as possible, in the possible event of an employee leaving the organisation. This suggests human capital being integrated into structural capital.

### **Structural capital**

Structural capital is the structures and mechanisms that help support employees and includes procedures, routines and everything that is left in the organisation once the employees or members go home (Bollen *et al* 2005:1164). Structural capital includes 'intangible assets such as information systems, distribution networks, strategy for work team creation and maintenance, competitive market intelligence, and knowledge of structures, systems and the market' (Carson *et al* 2004:447). Bontis (1998:66) is of the opinion that the core of structural capital is the knowledge rooted in within an organisation's routines.

Carson *et al* (2004:453) divide structural capital into fluid (dynamic) or crystallised (static) categories. The fluid category includes organisational culture and climate (which includes shared values and trust), and the functioning of communities of practice and innovation networks. The crystallised category includes procedures, policies, or data. Structural capital therefore includes both tangible and intangible knowledge-related resources and assets, for example, intangible relating to organisational culture and tangible relating to databases. Structural capital consists of all the tangible or intangible knowledge-based assets an organisation owns.

This is where the main difference from human capital is apparent. Structural capital is owned by the organisation whereas the individual owns human capital. Considering this, it is crucial for the organisation to extract as much human capital or knowledge as possible and integrate it into structural capital. This aims to offer the organisation a certain amount of security when it comes to longevity and future value. Once knowledge is integrated within the organisation's structural capital, it remains present even if the source, i.e. the individual, leaves the organisation.

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Structural capital is, however, not limited only to being a mechanism of capturing knowledge and ownership. It also consists of the culture and tools that can assist in developing human capital. Seetharaman, Low and Saravan (2004:524) state that structural capital is an enabler. Structural capital implies the environment where human capital can be nurtured and developed, as well as the technologies and processes that can assist in knowledge sharing and learning.

### **Relational capital**

Relational capital refers to relationships with other organisations, market orientation, knowledge of customer relationships, knowledge of marketing channels, and competitor orientation (Bollen *et al* 2005:1166) and implies knowledge rooted in relationships external to the organisation (Bontis 1998:67). Relational capital is the value of an organisation's external relationships and the people it does business with (Carson *et al* 2004:447). Seetharaman *et al* (2004:524) mention that relational capital includes branding and network externalities. Relational capital can thus be defined as all value-adding external and internal relationships an organisation has, such as customers, suppliers, competitors, and partners.

Human and structural capital are both internal to an organisation, whereas relational capital is predominately external. This makes relational capital more difficult to control or influence than the other two categories. For example, an organisation's reputation is very difficult to manage definitively. Because of this, relational capital is fragile and dynamic. However, there are measures an organisation can take. For instance, by developing human capital, employees can be better equipped to deal with external relationships and thus develop relational capital. Also, by continuously researching the market, i.e. what a customer wants, an organisation can adapt internal strategies and develop structural capital. The core of relational capital is how external people perceive and contribute to the organisation and how the organisation perceives and uses external people to its benefit.

### **IMPORTANCE OF INTELLECTUAL CAPITAL**

An organisation's long-term survival depends on how it invests and improves its intellectual capital (Kagan 2005:12). The idea of intellectual capital has a variety of implications for an organisation. These implications, if properly recognised and managed, are of strong organisational importance in the long and short term, especially considering the current market environment.

As Peppard and Rylander (2001:226-227) argue – the intellectual capital perspective is important for organisational management because it provides a holistic view of an organisation, it focuses on value (instead of traditional accounting frameworks that focus on costs), it provides understanding of the worth of intangible assets, it provides a foundation of understanding resources in action, and it enables a practical rather than conceptual way of thinking.

Intellectual capital consists not only of assets that contribute strategically to an organisation, but also of a culture that is essential to survival in the current market environment. Even though organisations demand profit to exist, methods to be profitable are constantly changing. The intellectual capital paradigm is crucial for an organisation to adapt quickly and efficiently to the growing requirement of change and be able to create value.

Management focus tends to shift from tangible to intangible capital when it comes to value creation processes in organisations. Intellectual capital can be seen as knowledge that is transferred so that higher-valued assets are produced (Abeysekera 2006:62-63). This emphasises the value creation role of intellectual capital. An organisation has to invest in value, and manage intellectual capital assets to exploit market opportunities and remain competitive in today's economy (Bose & Oh 2004:347-348). An organisation that manages its own intellectual capital tends to outperform competitors (Brennan & Connell 2000:213). Chaharbaghi and Cripps (2006:30) explain that intellectual capital can be seen as the primary driver of sustainable organisational performance and it reflects the actual worth of an organisation more effectively than tangible asset reporting. There is thus a positive relationship between business performance and intellectual capital (Pena 2002:181).

Intellectual capital focuses on the management, ownership, and development of knowledge and intangible assets, and their producers. An organisation that does this efficiently will be able to determine internal and external gaps in productivity and performance. For example, an organisation develops human capital and captures it in the organisation's structural capital. The organisation will be able to develop organisational strategies constantly according to improved and captured knowledge. The new organisational strategies will add value to organisational performance. This value created also contributes to competitiveness.

In the past, organisations focused on production quantity instead of quality. Low production or service costs equated to higher possible profitability. However, in today's competitive environment, this is no longer viable. An organisation must know the customer and how to serve customer needs efficiently. A returning customer is of

much more value to an organisation than a once-off customer. In this regard, a product or service that is more innovative than a competitor's is crucial. All this is rooted in developing knowledge, creativity, and ideas, which in turn is rooted in managing and developing intellectual capital. Investors' interest is also of significance to organisational performance and competitiveness. Intellectual capital plays a role here too.

The voluntary disclosure by an organisation of information pertaining to intellectual capital could attract investors as it gives an indication of possible future wealth and value creation (Williams 2001:193). Intellectual capital more thoroughly represents the worth and value of an organisation than traditional accounting perspectives. It is believed that investors would rather show interest in an organisation that shows potential for value creation in the long term than an organisation that is only focused on book value in the present. This is where intellectual capital is significant.

As discussed, the management of intellectual capital contributes to the overall and strategic value creation, innovation, and competitiveness of an organisation. Making investors aware of an organisation's ability to manage intangible assets and intellectual capital leads to valuable external support. This support adds to the strength of an organisation as a whole.

## **MANAGEMENT OF INTELLECTUAL CAPITAL IN THE HORSERACING INDUSTRY**

### **Overview of the South African horseracing industry**

South African horseracing started in 1797, with the first recorded race club meeting occurring in 1802 (SAHorseracing 2006). At present, the South African horseracing industry creates employment for over 100 000 people and boast an annual betting turnover of approximately R5 billion (SAFTote 2007a; GamblingSA 2007). This illustrates how the industry has grown from its humble beginnings, 210 years ago, to being a crucial role player in the South African economy.

Phumelela-Gold Enterprises is the partnership or joint venture between Gold Circle and Phumelela Gaming and Leisure (Gold Circle Annual Report 2006:8). Phumelela-Gold is managed by Phumelela and owns all media and information rights emanating from both organisations (SAFTote 2007a). This includes South Africa's exclusive horseracing channel, Tellytrack (SAFTote 2007b). Tellytrack is broadcast in South Africa, Mauritius, the United Kingdom, Saudi Arabia, and Zimbabwe (Softarc 2007) and specialises in the horseracing industry. The international division of South

African horseracing also falls under the Phumelela-Gold banner. It broadcasts South African horseracing to, and enables betting, in seven different regions. These regions are the USA, the UK, Europe, Asia, Singapore, Africa, and Australia. Phumelela-Gold is also responsible for importing international broadcasts and betting from nine regions, namely the USA, the UK, France, Kenya, Singapore, Zimbabwe, Dubai, Hong Kong, and Mauritius (Phumelela Annual Report 2006:4-5,12).

Phumelela-Gold is a crucial initiative in the promotion of South African horseracing. The co-venture makes horseracing more accessible locally and internationally. The profitability of the industry as a whole is strongly reliant on this media coverage. Consumer interest cannot be gained or sustained without public awareness and growth in services. In this regard, Phumelela-Gold is essential. The international division plays a dual role. It offers local punters more variety by enabling betting on international races and promotes the South African industry in the larger foreign betting markets, such as the UK and the USA.

Relational capital is, therefore, strongly focused on, with international and domestic business partnerships and constant growth in products and services, aimed at the customer. Tellytrack also assists in this regard. As Bontis (1998:67) mentions, relational capital suggests that knowledge is rooted in relationships external to the organisation and relational capital is external value creation (Seetharaman *et al* 2004:523-524).

Although Phumelela, Gold Circle and, accordingly, Phumelela-Gold form the oligopoly in the South African horseracing industry, there is a variety of organisations that have crucial roles in monitoring these companies, their operations, and the general operations of the industry. These organisations are the Racing Association, the National Horseracing Authority, the Thoroughbred Breeders' Association and the South African Jockeys' Association.

Racehorse owners' interests are represented by the Racing Association. The aim of the association is to protect and support the wellbeing of the sport of horseracing and racehorse owners. This is done with the goal of the industry achieving its greatest potential. The National Horseracing Authority plays a more formal role in the industry than the Racing Association and is in charge of all aspects of horseracing control. The National Horseracing Authority, as the overseer of the industry, has to work closely with all stakeholders and role players to ensure cooperation and rule enforcement. Communication and knowledge sharing are of fundamental importance. The Thoroughbred Breeders' Association oversees race horse breeding and through

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this association the quality of race horses is maintained and improved. The South African Jockeys' Association is concerned with looking after the needs of the jockeys.

Since Phumelela and Gold Circle are the only organisations competing in the horseracing industry in South Africa, the aim of the empirical study was to determine if and how intellectual capital is managed and developed in these two companies, and, therefore, the South African industry as a whole.

According to Bontis, Dragonetti, Jacobsen and Roos (1999:400) no single method of evaluating intellectual capital is perfect and that the measurement tool used should be appropriate within a given set of circumstances. Van Deventer (2002:438) suggests that a unique measuring tool should be developed according to the circumstances of a specific organisation. Roos and Roos (1997) developed indicators for each of the components of intellectual capital. For the purpose of this survey, the following indicators were identified:

- Human Capital
  - Percentage of employees with degrees.
  - IT literacy.
  - Hours of training/employee.
  - Average duration of employment.
- Structural Capital
  - Adherence to mission.
  - IT expenditure.
  - Processes completed without error.
  - Cycle/process times.
- Relational Capital
  - Length of relationship with customers/suppliers.
  - Customer satisfaction.
  - Market share.

### **Findings of the empirical survey**

Qualitative research was done by examining annual reports and financial statements (2004-2006) of the two companies. The annual reports gave insight into how both organisations have developed from 2004 to 2006 and how intellectual capital might have grown. Structured interviews with four managers at Phumelela and Gold Circle were also conducted. The Phumelela's interviewees have 30 years experience in the horseracing industry and the Gold Circle's interviewees have 14. The managers interviewed at both organisations are in similar positions in their respective organisations and boast a significant background in the horseracing industry.



According to Du Plooy (2001:83) a qualitative study is guided by assumptions, should be backed up by literature so that subjective and faulty reasoning can be avoided, and research methods usually include participant surveys, questionnaires or interviews.

### **Phumelela**

Phumelela was established in April 1999 and its vision is 'to be a major global role-player in creating exciting opportunities for capitalizing on difference of opinion and outcome'. The company owns five racecourses in four provinces and revenue is primarily derived from commission on tote bets placed at its five racecourses, tote outlets and two telephone-betting centres. Approximately 1 500 people are employed by Phumelela, of which nearly 80% are from previously disadvantaged backgrounds. Phumelela is a public company and was listed on the Johannesburg Securities Exchange in 2002.

The importance of information flow is recognised by Phumelela, as information technology and various systems are continuously updated for the purpose of improving information dissemination.

#### *Human Capital*

As stated previously, human capital refers to an organisation's members' individual tacit knowledge, i.e. intelligence, expertise and skills of the individual (Bollen *et al* 2005:1164). Phumelela's board of directors (Phumelela Annual Report 2006:6-9) comprises a wide variety of individuals with varied qualifications, such as B Sc, B Com and MBA degrees. The youngest board member is 36 and the oldest 68 years of age. This implies a wealth of experience and tacit knowledge giving Phumelela a significant competitive advantage in this regard. All board members have ties to the horseracing and gaming industry, and have played corporate roles throughout their careers. Strong leadership is crucial to any organisation and, considering the wealth of experience and tacit knowledge that makes up Phumelela's board of directors, Phumelela has a significant competitive advantage in this regard.

An organisation that invests in its employees' skills will outperform competitors that do not invest sufficiently (Baird 2004; Senge 1990:3). The number of employees has remained relatively similar from 2004 to 2006, with exactly the same totals in 2004 and 2006. Permanent staff to casual staff ratios have shifted significantly from 2004 to 2006 with about two third of the staff members as casual staff in 2006. Casual employees have the ability to do more work external to the industry than permanent employees because of contractual differences and have a wider variety of skills. This

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balance between the more specialised staff and the staff with potentially broader knowledge is what makes Phumelela's human capital so interesting. Both permanent and casual staff play an integral role in intellectual capital development. Phumelela has a variety of incentives, policies, and support systems in place to consider employee satisfaction, retention, and development (Phumelela Annual Report 2006:14; 2005:13; 2004:13). All board members and employees must sign a code of ethics. Throughout the annual reports, mention is made of the importance of training and empowering individuals. Employee (permanent and casual) costs have grown from over R90 million to over R104 million from 2004 to 2006. This implies the willingness of Phumelela to invest in individuals, i.e. human capital. Bonuses are awarded on a performance related basis meaning that quality of work and loyalty are rewarded. A variety of training programmes are in place to enable employees to better themselves. Individual empowerment relates significantly to Phumelela's stock option scheme and 6.65 million shares in the organisation were allocated to Phumelela employees when the company went public in 2002.

Phumelela does seem to be relatively bureaucratically minded in many aspects relating to organisational structure and employee positions which may affect knowledge sharing. A more open culture is suggested for further human capital development and more efficient knowledge sharing.

### *Structural Capital*

Phumelela's organisational culture is an important aspect of the organisation's structural capital. Publication and broadcasting rights are an integral part of the organisation's structural capital. The trademarked publication and broadcasting assets make the external market aware of industry happenings. This signifies that structural capital works towards the improvement of relational capital by keeping consumers up to date and informed of organisational occurrences.

Phumelela lists Racing UK rights under intangible assets in its financial statements. Intangible assets have, however, decreased from R39.7 million to R19.4 million from 2005 to 2006. This appears to be a troublesome figure considering the increasingly intangible-based nature of the current market environment. A reason for this is the fact that the cost of broadcasting rights has increased from R10 million in 2005 to R20 million in 2006. Phumelela, since 2005, has thus recognised the importance of intangible assets, and therefore structural capital, by inclusion in the financial statement, and is prepared to meet increasing costs to sustain its structural capital.

This aspect is also emphasised by Phumelela's willingness to upgrade and improve its information and computer systems continuously. The value of plants, computer

equipment and software, machinery, and vehicles, as listed under owned assets, have increased from a net book value of R54.9 million to R61.02 million from 2005 to 2006. This increase suggests Phumelela's commitment to its goals of improving information systems and, accordingly human capital.

### *Relational Capital*

Phumelela specific branding includes the Steinhoff International Summer Cup and the GommaGomma Challenge. The GommaGomma Challenge is recognised globally as Africa's richest horserace, with a stake of R3 million in 2006, and the Summer Cup is recognised globally as Africa's richest race day. These two races are crucial in Phumelela's branding because of their prestigious and recognisable nature.

The availability of share in the company implies that the organisation recognises the importance of and willingness to involve external (and internal) parties. Phumelela is ranked fifth in Business Times' Top 100 companies of 2007 (Shevel 2007:13). Owing to the flu epidemic in 2003 and 2004, 2004 was the weakest year in share values. Significant losses in overall income, share values, and profit during that period imply that shareholders and the external market were influenced negatively because of the illness. This emphasises the importance of relational capital. The impact of the epidemic on relational capital was drastic. An event of such a nature causes relational capital to decrease, which causes overall profitability to decline.

Phumelela supports the National Responsible Gambling Programme, which is concerned with supporting gambling problems and is also sponsoring the South African Police Service Mounted Unit. These activities and sponsorships improve Phumelela's public image and show that it does give back to the community. This is a significant recognition of the importance of relational capital by Phumelela.

Phumelela should, however, increase turnover nationally, as Gauteng is currently Phumelela's most profitable region. This suggests that relational capital is significantly weaker in other regions. Even though two of the regions (Western Cape and KwaZulu-Natal) are predominantly Gold Circle areas, Phumelela should move towards a more balanced national relational capital distribution. Turffontein is considered a hub in South African horseracing. This racecourse, therefore, should play an integral role in Phumelela's relational capital development. As the headquarters of many industry role players, Turffontein is central to enabling easier knowledge sharing and intellectual capital development. A plethora of key role players is easily accessible to Phumelela because of their proximity. This allows a more direct and more accessible route of sustaining, maintaining, and developing relational capital pertaining to these role players.

## Gold Circle

Gold Circle is a private company and was established in 2002. It operates five racecourses in KwaZulu-Natal and the Western Cape. The two most commercial and well-known racing events in South Africa, the Vodacom Durban July and the J&B Met, are organised by Gold Circle and occur at Gold Circle racecourses. In the region of 2 600 employees work for Gold Circle and a thousand limited payout machines are operated throughout KwaZulu-Natal.

### *Human Capital*

The average age of board members at Gold Circle is approximately 50, with a wide variety of industries represented. Gold Circle board members have experience in, for example, the banking sector and event management. The organisation has a continuously growing workforce, with 2 604 staff members in 2004 and 2 770 staff members in 2006. An interesting note is that Gold Circle has a significantly larger staff total than Phumelela. Gold Circle continuously mentions how important employees and organisational members are (Gold Circle Annual Report 2006:18, 24; 2005:13-14; 2004:11-12). Human resources development is a fundamental focus of the organisation. In this regard, the Tourism, Hospitality, and Sports Education and Training Authority donates a significant amount for training annually to Gold Circle. The amount received in 2006, R713 259, is double that of the amount received in 2004. The organisation boasts continuous compliance with the National Skills Development Act and employee benefits and staff costs have increased from just over R82 million to just over R103 million in the 2004 to 2006 time period. Gold Circle mentions in their annual report an employee survey conducted to establish employees' needs. This was done to ensure that employees' needs, views and perceptions were taken into account when planning for and developing human resources. The survey alludes to knowledge sharing and the learning organisation as development tools for human capital and, therefore, intellectual capital as a whole.

### *Structural Capital*

It was found that intangible assets are not recognised as directly by Gold Circle as by Phumelela. The only intangible asset listed in the annual reports is goodwill. Goodwill has grown from nothing to R1.5 million from 2005 to 2006. Information dissemination and computer system costs or growth is problematic to measure within Gold Circle, as this information is not listed in the annual reports. It is mentioned, however, that Gold Circle sees information dissemination to role players, stakeholders, and customers as important. The continuous development of the organisation's website is

valuable to Gold Circle, as are monthly newsletters sent via e-mail to interested parties.

Gold Circle has various policies and codes of conduct in place. This guides the organisational culture and forms a part of the foundation of Gold Circle's structural capital. However, the recognition of structural capital is not clear within Gold Circle. Listings are vague and intangible assets are not as well recognised as they should be in the current market environment.

### *Relational Capital*

Gold Circle-specific branding includes the two most commercially recognised racing events in South Africa, namely the Vodacom Durban July and the J&B Met. The stature of the sponsors involved, Vodacom and J&B, already suggests a strong relational capital basis. In the region of 40 000 people attend the July annually and 50 000 people attend the Met annually. These two race meetings are obviously the flagship of Gold Circle branding and fundamental in relational capital.

The accessibility of Gold Circle, however, is negatively influenced by the fact that it is a private company, as opposed to Phumelela, which is a public company. A private company does not trade publicly on the securities exchange. This implies lack of external shareholders. Gold Circle, however, make up significantly for this in terms of its community, customer, and social commitments. On a social and community basis, Gold Circle is involved in a variety of initiatives and projects. It supports educational resources nationally so that communities can benefit on the developmental and social levels. This is done in conjunction with the national and local government and established organisations. Key projects involve Booksmart (distribution of learning resources), the school art competition, jockey training and grooms' training.

### **Comparison between Phumelela and Gold Circle**

Intellectual capital recognition and development are very similar between Phumelela and Gold Circle. Both organisations recognise the value of and develop intellectual capital to some degree. Phumelela is found, however, to be more competitive overall.

Phumelela has controlling shares in the joint venture with Gold Circle. Also, Phumelela has a more evenly spread national distribution than Gold Circle. Gold Circle has a slight advantage in terms of its two major racing features. Considering, however, that Gold Circle's net profit for 2006 was just over R9 million, whereas Phumelela's was just over R60 million, Phumelela is on another level competitive to Gold Circle.

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Phumelela, overall, does seem more geared towards sustaining and creating value in today's economy than Gold Circle. To summarise the empirical survey, various deductions are made:

- The South African horseracing industry is complex and vast, requiring the development of intellectual capital and other intangible assets to compete strongly globally.
- There are various crucial role players and regulations, with Phumelela and Gold Circle forming an oligopoly in South Africa and being recognised as the most influential organisations in the African racing industry.
- The various players, apart from Phumelela and Gold Circle, recognise the importance of intellectual capital and develop it to varying extent.
- Phumelela is seen, overall, as stronger than Gold Circle in a significant number of areas pertaining to intellectual capital.
- Phumelela's intellectual capital strength is well distributed between human, structural, and relational capital.
- Gold Circle's intellectual capital strength is rooted within human and relational capital, with structural capital being the weakest.
- On a profit level, Phumelela is significantly stronger than Gold Circle.
- Phumelela is spread out more widely nationally than Gold Circle, giving it a competitive edge in relational capital.
- Phumelela and Gold Circle both have two invaluable race meetings annually, with Gold Circle gaining the competitive edge concerning commercial value. The J&B Met and the Vodacom Durban July, as Gold Circle events, draw higher attendance and popular demand than Phumelela events. The Steinhoff International Summer Cup and the GommaGomma Challenge, as Phumelela events, however, are seen as the most elite – the richest in Africa.
- Attendance of the Summer Cup is slowly reaching the levels of the Met and July, but currently Gold Circle still has a structural and relational capital advantage in that regard.
- Night racing is, currently, exclusive to Gold Circle, giving it another advantage in structural and relational capital.
- Phumelela is by far, the more profitable organisation of the two.
- Both organisations use knowledge sharing but still have relatively hierarchical, bureaucratic structures.

## RECOMMENDATIONS

Even though both organisations and the industry's key role players appear to recognise and develop intellectual capital to varying degrees, there is room for improvement. Specific intangible asset and intellectual capital development policies can be put in place and a cultural change can be facilitated to enable more learning and knowledge sharing. This cultural shift will lead to even more intellectual capital recognition and development.

A rather drastic recommendation is that, considering a joint venture between Phumelela and Gold Circle is already in place, the organisations should consider cutting out individual operations and amalgamate completely. Phumelela-Gold Enterprises is the partnership or joint venture between Gold Circle and Phumelela Gaming and Leisure (Gold Circle Annual Report 2006:8). Phumelela-Gold is managed by Phumelela and owns all media and information rights emanating from both organisations (SAFTote 2007). Phumelela-Gold is a crucial initiative in the promotion of South African horseracing. The co-venture makes horseracing more accessible locally and internationally. Both organisations have various degrees of intellectual capital strengths and weaknesses and a full, holistic partnership may prove to generate even more value to both. A single entity, i.e. a monopoly, will surely make South Africa more competitive globally, as opposed to the current oligopoly. Considering, also, the significant difference in net profit between the two organisations, it is definitely something for Gold Circle to strive for. Phumelela will also gain strong intellectual capital value improvement through such a venture, as Gold Circle, despite its size, is increasingly innovative and creative.

## CONCLUSION

In this study, intellectual capital has been discussed as being paramount to an organisation's success in the current market environment. Intellectual capital and its three categories are explained as crucial to an organisation.

Phumelela and Gold Circle are at the centre of the empirical study as they form the oligopoly in South African horseracing. It is of fundamental importance to role players in the South African horseracing industry to develop and recognise the importance of intellectual capital continuously. Phumelela and Gold Circle were discussed according to intellectual capital categories individually and then compared. This was done to recognise how the organisations compare with intellectual capital recognition and development, as it has significant bearing on competitiveness and market share in the horseracing industry. This is not only limited to horseracing. Any organisation,

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to achieve and sustain competitiveness, must recognise and develop intellectual capital.

It has been found that the South African horseracing industry does recognize and develop intellectual capital in varying degrees. However, the South African horseracing industry still has a lot to do in the current market environment. Shifts in culture and implementation of intellectual capital development on formal and informal levels are found to be of increasing importance.

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