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A framework for financial performance measurement of sport governing bodies

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Background

Making financial profit is obviously not a goal for non-profit organisations (NPOs) (Henderson et al., 2002). However, NPOs do have financial concerns and can generate profit as long as they invest it through their services (Sandler & Hudson, 1998). Thibault, Slack and Hinings (1993) underlined that resources are critical to non-profit sport organizations such as sport governing bodies (SGBs). Furthermore, Gerrard (2004) puts forward three roles financial performance analysis could fulfil within a sport organization, namely: (i) the identification of key financial information; (ii) the measurement of financial values; and (iii) the communication to the organization's stakeholders. Therefore, it might be considered a central topic for long-term sustainability (Harrison & Sexton, 2004). However, despite its crucial interest in strategic management, research on financial performance of non-profit sport organizations is considered to be scarce (e.g. Késenne, 2006; Stewart, 2007). Yet, no agreement about ratios or financial performance-related categories has emerged which would give scholars and practitioners a better understanding of how financial performance of SGBs could be measured.

Objectives

The purpose of this paper is to develop a framework to measure financial performance of SGBs using a financial ratios analysis. As a result, we aim to identify distinct financial performance-related categories for these non-profit sport organizations. This might help the managers of SGBs to take strategic decisions in highlighting the strengths and weaknesses of their organization.

Method

Ritchie and Kolodinsky (2003) evaluated financial performance of university foundations through financial ratios based on Siciliano (1996, 1997) and Greenlee and Bukovinsky (1998).

Using factor analysis, they studied four performance-related categories, i.e.: (i) public support; (ii) fiscal performance; (iii) fundraising efficiency and (iv) investment of resources. In the present study we adapt their method to the financial analysis of all the Olympic, non-Olympic and leisure-time French speaking Community Sport Governing Bodies (CSGBs) in Belgium (N=56). We have collected their financial accounts for the years 2001 to 2006. According to the literature, we computed fifteen financial ratios which are *a posteriori* attributed to one of the four financial performance-related categories, namely: (i) public support, (ii) fiscal performance, (iii) attraction of resources, and (iv) investment. Afterwards, using factor analysis, we identified the degree to which the financial ratios (=items factorized) group together on specific related categories. Finally, standard normalization provides us with financial performance scores to analyse correlational relationships between these categories.

Results

Factor analysis for the years 2001-2003 and 2005-2006 has shown six financial performance-related categories (significance >.4): (i) public support, (ii) fiscal performance, (iii) attraction of resources, (iv) financial size, (v) membership investment, and (vi) elite investment. For 2004 – year of the Summer Olympic Games – public support and elite investment have merged. Computed separately, they are correlated for 2004 (.51), as well as for 2003 and 2005-2006 (.34 to .47). This indicates that the ability of CSGBs to invest in elite sport is proportional to the public resources they receive. For 2004, fiscal performance is correlated negatively (-.54) with membership investment and positively (.4) with elite investment. The latter competes with membership investment for 2003 (-.31) and 2004 (-.4). This denotes that relative net revenues of CSGBs which invest in elite sport were higher than CSGBs which invest in membership activities. This framework makes it possible to discuss about the financial performance of CSGBs.

Conclusion

This study provides researchers and practitioners with a viable model for analysing financial performance of SGBs and providing strategic orientations in the long term. Three financial performance-related categories correspond to those found by Ritchie and Kolodinsky (2003): (i) public support; (ii) fiscal performance; (iii) attraction of resources (namely fundraising efficiency). On the other hand, the financial size category has emerged, whereas the investment of resources category has split. According to Papadimitriou (2002), the former refers to CSGBs' financial capacity to obtain resources and to allocate them which are directly related to the size of CSGBs. The investment category has been split up between elite and membership investment which are competing with one another as suggested by Shilbury and Moore (2006). The increasing public support some CSGBs received in 2004 fits together with their elite investment. Therefore, these CSGBs have disregarded membership services investment in favour of elite sport support in 2003 and 2004. For 2004, they might have generated more benefits. These results show the great impact the Olympic Games have on the financial performance of (C)SGBs and on the (re)definition of their priorities and investments. The main limitation to be considered is that different operating models for SGBs exist according to countries which may considerably influence their financial performance.