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## **FINANCIAL AND BUSINESS INFORMATION OF SPORT CLUBS DETERMINED BY BUSINESS MODEL**

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## **INFORMACJA FINANSOWA I BIZNESOWA KLUBÓW SPORTOWYCH DETERMINOWANA MODELEM BIZNESU**

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**Summary:** The paper is an attempt of answering the question what should business and financial information contain in case of Polish sports clubs and their activities determined by their business model. In the paper there were employed data from Polish sports clubs that have been chosen as research objects in order to analyse and describe business model. Moreover, the research was based on non-standardized interviews with managers to answer the problem what is understood by the term of success of a sports club and what this success comprises of. A proposition of solution basing on the conducted research is offered, which allows to supplement the classic methods of evaluating company performance with a method of evaluating the profitability of social activities in the field of sport. So that the authors propose to elaborate a method which should include deep economic analysis: SROSI (Social Return on Sport Investment).

**Keywords:** controlling, social value, SROSI, CSR, finance.

**Streszczenie:** W zarządzaniu finansami podkreśla się często, że przedsiębiorstwo jest organizacją nastawioną na zysk, maksymalizowanie wartości majątku właścicieli lub długoterminowy rozwój. W związku z tym rozumienie pojęcia sukcesu przedsiębiorstwa będzie rozpatrywane właśnie w powiązaniu z powyższymi dążeniami. Jednak kluby sportowe nie wpisują się do końca w ten schemat. Poza celami *stricto* biznesowymi można wyróżnić cele społeczne oraz oczywiście cele sportowe. W pracy poszukuje się odpowiedzi na pytanie, czy informacja biznesowa i finansowa standardowo wymagana od polskich klubów sportowych w zadowalającym stopniu prezentuje efekty ich działań zdeterminowane modelem biznesu? W pracy wybrano polskie kluby sportowe jako obiekt badań. Aby uzyskać odpowiedź na zadane pytanie, przeanalizowano, co jest rozumiane przez pojęcie sukcesu klubu sportowego oraz co na ten sukces się składa na bazie przeprowadzonych wywiadów niestandardowych. W odpowiedzi na potrzeby informacji biznesowej dostosowanej do modeli biznesu klubów sportowych zaproponowano rozwinięcie metody SROSI (*Social Return on Sport Investment*).

**Słowa kluczowe:** controlling, wartość społeczna, SROSI, CSR, finance.

## 1. Introduction

Control and strategic controlling have initially involved verifying whether an implemented strategy is accordant with the assumed plans. Further, some researchers have concluded that control is the most effective when it is applied in the key points of a given activity [Bittel 1994, p. 185], i.e. the points that determine a project's success or failure. Consequently, when considering effectiveness, it is worth asking what success means in the given area, and what its determining factors are. In management and finance literature it is often stressed that a company is an organization oriented towards profit, maximising the value of assets of its owners, or long-term growth [Nita 2009, p. 12, 13]. For this reason the interpretation of the concept of a company's success will be considered while bearing the above-mentioned pursuits in mind. However, sports clubs do not entirely correspond with this notion. Besides strictly business goals, a variety of social goals, and of course sport goals can be distinguished [Pawlak, Smoleń 2015; Perechuda 2015; *The Economic Impact...* 2012].

The conducted research combines several fields of study. The paper can be regarded mainly as related to financial studies in the context of dealing with financial information and the methods of financial analysis, as well as to management studies in the context of methods of evaluating the performance of a company. The paper fits into the trend of management control, and performance management.

## 2. Research assumptions

The main goal of the paper is to answer the question what should business and financial information contain in case of Polish sports clubs and their activities determined by their business model. Polish sports clubs have been chosen as research objects. To answer the question, one must analyse what is understood by the term of success of a sports club and what this success comprises of. In order to achieve the goal, a series of non-standardized interviews has been conducted with 11 managers of sports organizations, such as football schools and academies (in the form of associations and foundations), and sports clubs of various disciplines. Interviews were conducted in the years 2016 and 2017 during group workshops and individual meetings. Interviewer conducted conversations in such a way as to obtain answer to two main questions: what is understood by the term of success of a sports club and what this success comprises of. Interviews were stopped when obtained results started to repeat. Mentioned research method was chosen due to deep look at problem and to obtain valid information during open conversational interviews with managers. On the basis of sports literature, financial data, scientific literature, and the conducted interviews a general business model of sports clubs in Poland has been devised. Following this, the financial data have been analysed in the context of the devised model and the values provided by the clubs to their stakeholders, mainly focusing on

the financial result and equity capital presented by clubs of various sports disciplines in Poland. The devised business model is a generalised one, bearing in mind that there are cases of highly professional clubs which only to a limited extent fit in the context of providing social value, i.e. in a non-profit character of activity and the realisation of social or public functions. While generalising it can be noted, however, that a considerable number of sports clubs, including those from the highest league levels, may be described using the accompanying business model standard. A solution basing on the conducted research is offered, which allows to supplement the classic methods of evaluating company performance with a method of evaluating the profitability of social activities in the field of sport. But still the method needs further elaboration.

### 3. Value, but for who?

In the literature pertaining to models of business the concepts of value and seize value have often been mentioned [Jabłoński 2013; Falencikowski 2013, p. 47–53; Amit, Zott 2012]. Falencikowski emphasises that in modern times companies compete also by creating value for the customer. The company receives remuneration for the generated value, the amount of which depends on the ability to seize value. These issues serve as the groundwork for the creation and functioning of business models [Falencikowski 2013, p. 3–5]. Research on creating value and seizing value has indicated that forming relations between a company and its partners is simply meant to create and seize value. The works concerning business models also distinguish customer value, which is the value created by the company, and company value, which is the value seized.

When selecting ontological approaches to a business model, suitable for the activity of sports clubs, one can decide between two concepts:

1. The Magretta concept [Magretta 2002]: a business model is a description of how resources are merged and transformed in order to generate value for stakeholders and how a company will be rewarded by the stakeholders in exchange for the values they were delivered.

2. The Shafer, Smith, Linder concept [Shafer et al. 2005]: basic business logic, taking into account the strategic choices made to create and seize values within a network of values. This concept refers to a network functioning of companies stemming from the ecological theory of entrepreneurship. It is interesting in the case of sports clubs, as they are organisations which function in close relation with various stakeholder groups [Perechuda 2016, p. 83].

Both these presented concepts move away from the notion of delivering value to the customer, they focus rather on the values delivered to the stakeholders and the value generated on the basis of relations with the stakeholders. Before presenting a general business model of Polish sports clubs, one must specify what the decision-makers of sports clubs understand by the term of success and what its determining

factors are. On the basis of non-standardized interviews (described in section 2 of this paper) it has been set that successful sports club should be characterised by:

- 1) high sport performance,
- 2) stable financial situation (with no threat of bankruptcy),
- 3) positive brand recognition,
- 4) high attendance of supporters.

Moreover, during the interviews the following sources of success were mentioned:

- 1) maximization of sport success → max. of stadium attendance → max. of sponsors' interest → max. of incomes → better players → max. of costs;
- 2) development of young players, experienced players with high skills;
- 3) max. of incomes without a negative net result;
- 4) constant investments in infrastructure and players;
- 5) income diversification;
- 6) strong community of the sports club including:
  - a) supporters with high attendance,
  - b) local government,
  - c) business partners,
  - d) local community without attendance;
- 7) human resources.

The conducted interviews have allowed us to characterise what is understood by the term of success of a sports club in Poland, and what its determining factors are. The success of a sports club will therefore be the delivering of value propositions to its customers, or more broadly to its stakeholders. The correct identification of these values can be the foundation for forging strong and stable relations with the stakeholders. On the basis of collected data pertaining to the understanding of success, financial data, and literature concerning club management a business model have been specified according to the idea of Osterwalder and Pigneur [2010]. The attempt to characterise the business model of sports clubs in Poland stems from the notion of perceiving the business model as a recipe for success described by Baden-Fuller and Morgan [2010]. The authors mention that the only type of business model is the description of the method of running a business, the rules on which it is based, and the key elements for the realisation of its tasks.

In the drawn up characteristic of success and business model it can be noted that one of the key elements forming the value of a club are the relations. A relation can be understood as a configuration of two or more entities which together are supposed to create added value [Gulati 1998]. It is precisely within these relations of a club with its stakeholders where the flow of values takes place. What is more, it can be noted that the remuneration of the club or the stakeholders has a non-monetary character. Among the value propositions of the club, the following have been distinguished: media attraction, recognition, network of relations, realisation of local policies, social integration. A portion of these values does not directly translate into financial benefits and instead consists of benefits widely regarded as social ones.

**Table 1.** Business model canvas of sport clubs in Poland

<b>Key partners</b>	<b>Main activities</b>	<b>Value proposition</b>	<b>Consumer service method</b>	<b>Target customer groups</b>
Public institutions which are often the co-owners of the club and the owners of the infrastructure	Recruiting key players externally, Broadcasting, Qualifying for preliminaries of European tournaments which allows for a significant raise of income in a given season.	Recognition Media attraction Network of business contacts Social contacts Image creation Media content	Strong relations with business clients and public institutions, Long-term relations with local government units of a nature that makes the club dependent on these stakeholders Lack of mutual trust between the customers and the club	Individual customers Organizational customers Public institutions Media
Local business partners	<b>Resources required to run the business</b> Players, training process know-how, relational resources, infrastructure available through agreements with local government units, strictly domestic recognition	Local pride Social integration Support of local policies	<b>Channels of reaching the customers (sales channels)</b> Value proposition reaches the customers via local and national media, relational resources, directly	
Supporter associations				
Sport academies and sport schools training new players				
Media				
<b>Cost structure*</b> The key element of cost structure are wages. The level of the rate of wages/income = 76% is 16% over the optimal level (in 2013).		<b>Income sources*</b> From the game day: 19%, commercial: 46%, broadcasts: 35%. Sponsoring income is of a short-term nature, in most clubs without a clear sponsoring plan oriented towards long-term gain of benefits. Substantial involvement from local and regional businesses and partners.		

\* Data only for Ekstraklasa football clubs.

Source: own elaboration based on [Deloitte 2015, 2016; Osterwalder, Pigneur 2010; Cox 2012].

This prompts the question: what kind of image of a sports club is depicted by financial data, and what kind of business information should supplement that data in order to be able to assess whether the club functions effectively and provides value to its stakeholders?

Key resources and key partners are necessary to generate added value (Value Proposition). The notion of key resources, also in this model, refers to tangible assets potential as well as intellectual potential and ultimately causing synergy effects by creating added value. Noticing an expression of the business model canvas concept in classic strategies that realise CSR conceptions, one can find many similar traits and dependencies. It can even be noted that similar elements exist on both sides of

these fundamentally varying concepts. The versatility and synchronism of business model canvas and the CSR conception suggests that both of these actions, regardless of the type of organization or its size, allow to pursue the forming and creation of a structured and coherent way of thinking about resources, relations and benefits, and consequently about the development of business. There is increasingly more space for activities in the CSR area and new business models in the non-profit organizations environment, the prime example being distinctive sports clubs and sportsmen in Poland and in the rest of the world. The well-functioning in the complicated world of football Respect program illustrates the value of sports organizations and its transnational responsibility for its functioning and the influence on the surroundings [UEFA]. Sports organizations, being particular organizations that shape the attitude of the youth, their sense of respect to their opponents, to diversity and the rules of fair play, directly realise the conception of CSR.

The B2B link between for-profit organizations (companies) and non-profit ones (sports clubs) is the possibility of association in the field of realising common CSR activities. On the one hand, the sports environment (sports clubs) can be a “place” for realising the CSR strategies of a company (cooperation), but on the other hand, they can also carry out their own independent (but concurrent with other partners) activities in the area of realising the CSR concept. The tendencies resulting from disclosures of extra-financial data of companies and exhibiting in reports and CSR rankings the partnerships between companies and clubs are increasing dynamically and are necessary due to shortcomings in financial reporting in this area. In the report of the forum of responsible business a great interest is clearly indicated towards “placement” of CSR activities in sports-type partnerships [*Odpowiedzialny biznes...*].

A thin line is forming that divides the business sector, the extra-business sector, and the extra-business sector which is running a business activity. The majority of sports clubs operate in a registered form as non-profit organizations able to run a business. After all, an institution conducting business activity, which sets strictly social goals for itself and invests the earned surplus depending on its goals into either its activity or the community, is not driven by the need of maximizing profit for the sake of its owners [Wronka 2009]. It must be stressed that CSR is not a form of cost from the business model perspective but a form of investment which should generate certain benefits, and at the same time from the business perspective (regardless of it being a for-profit or non-profit organization), an organization realising CSR should generate incomes sufficient for its survival and for the generating of values for the stakeholders.

#### **4. Financial information of sports clubs activity**

When analysing chosen financial data of the Ekstraklasa league football clubs (Table 2) it can be noted that these clubs are unable to generate financial surplus. What is more, due to generating accumulated losses, in many cases they show negative equity capital.

**Table 2.** Analysis of financial statement data of chosen football clubs in Poland

Football club	Share of equity capital in total liabilities in 2010 (%)
Ruch Chorzów	-63.59
Lech Poznań	51.76
Legia Warszawa	-413.66
Śląsk Wrocław	41.92
Wisła Kraków	-325.29
Average	-141.77

Source: [Perechuda 2015].

Research realised on a wider scale including other sport disciplines presents more interesting data. Pawlak and Smoleń [2015] presented the results of 23 Polish football clubs from 2001–2011, in which average equity was negative in 12 cases. Similar results can be observed in basketball clubs, volleyball clubs, and in the speedway league [Pawlak, Smoleń 2015]. Due to the presented financial information, stakeholders could assume that these organizations are not effective, because they cannot achieve break-even. But on the other hand, it can also be observed that football clubs are still attractive enough for their stakeholders and shareholders in order to obtain financing and not go bankrupt [Perechuda 2016]. There are very few cases of football clubs bankruptcy in comparison to the constant negative net result [Markham 2013]. In order to deliver proper business information in these cases, the role of accounting and managerial accounting is emphasised. Subjecting the environmental and social results of business activity to measurement by accounting will allow to create the proper numeric base presented in reporting to exact the socio-economic responsibility of an entity. This necessitates the implementation in accounting systems and managerial accounting of companies including sports clubs of such methods and procedures which will allow to provide individual stakeholders with information essential for evaluating the effectiveness of performed CSR activities. Therefore, the article suggests utilising a measure in the area of social effects of sports clubs measurement.

## 5. SROSI – the answer

The proposition of measuring the main effects of social activities in sports clubs is the concept of Social Return on Sport Investment (SROSI). It should be based on a wider gauge of social activities meant to manifest the effects of projects of sustainable development, SROI (Social Return on Investment). This method should take into account the detailed conditioning of functioning of sports clubs, in both for-profit and non-profit forms as it was delivered from presented business model (Table 1). The results presented in the previous paragraph showing the financial situation of

sports clubs refer to clubs operating partially as non-profit organizations and partially as for-profit organizations. However, in reality these two models overlap each other (Table 3).

**Table 3.** Non-profit versus for-profit sports club

Criteria	Non-profit model	For-profit model
Goals	Social and sports results	Business results
Financing institutions	Public and private	Private
Main sources of revenue	Subsidies, donations, fees	Providing commercial services (sponsoring, merchandising)
Main forms of employment, remuneration	Volunteers, scholarships, civil-law agreements	Employment agreements, civil-law agreements, contracts

Source: own elaboration.

The term SROI (Social Return On Investment) was created by analogy with the term of ROI (Return On Investment) that functions in the field of business [*A Guide to Social...*]. When allocating financial resources for a given activity, the decision-makers need a measure which allows them to find a common denominator for many projects from different fields and having a different time limit. The key issue is the added value.

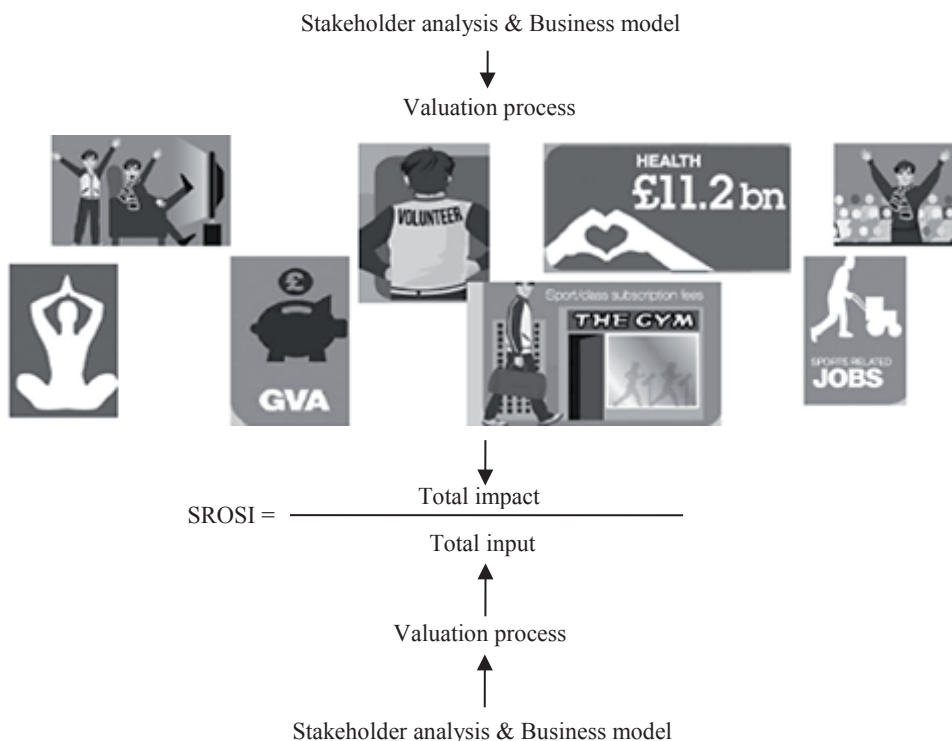
In order to organize the way of thinking about the added value of very diverse projects, a relatively coherent methodology of percentile calculation of revenue from invested resources has been worked out. A problem of using this method may be the proper interpretation of the sources of added value (on the basis of stakeholder analysis – Fig. 1), which will result from the lack of a reliable identification of stakeholders [Wronka 2009]. In consequence, the main trait of ROI is direct comparability, regardless of the field or form of activity. The key to calculate the ROI value is:

- estimation of the amount of financial flows anticipated in the future; for SROI it might not necessarily be flows, but economic benefits expressed in monetary form;
- applying the appropriate rate for discounting these future flows (economic benefits in the case of SROI).

Future events are unknown, therefore one cannot be certain as to the real value of future economic benefits. An issue that requires careful consideration is specifying not only the value of economic benefits, but also the risk level connected to gaining them. The amount of risk should reflect the interest rate used for discounting future benefits. The discount rate is important because nobody who is involved in executing a given project is able to reliably estimate the costs and incomes, i.e., the aforementioned economic benefits. That is why a common denominator must be found – precisely in the form of the failure risk level for the realization of a given project.



Basic proposition of economic coefficient SROSI is the following:



**Fig. 1.** SROSI

Source: own elaboration.

The purpose of using SROSI is increasing social effectiveness and maximizing values delivered by sports clubs or sport projects. This method takes into account a wider understanding of social value. It is a measure conforming with non-market methods of valuation, which means that it concerns situations directly involved with the goals of the social policies of a chosen organization. These methods are closely related to two dimensions: social and public. An institution undertaking a given project requires information about the benefits coming from activities conducted in order to realize its tasks. In order to specify way of assessing “Total Impact” deep economic analysis of sport case studies need to be provided. As it was already mentioned the base for the calculation is financial analysis and financial forecast. But economic analysis of social impact of sport project is fundamental to present economic value. The paper delivers information about sport clubs business model and its impact on business information that should be taken into account in further research detailing SROSI valuation.

## 6. Conclusions

A significant portion of third sector organizations in Poland are sports organizations [Perechuda 2015]. Studies on enterprise value management increasingly often note that the effects of an enterprise's activity are not only in its financial results. Companies also create social values for their employees and their environment, which cannot be easily accounted in their financial results [Auerswald 2009]. But enterprises include their non-financial activity in their business model. The description of the business model of sport clubs reveals ways of value creation for stakeholders. In consequence, sports clubs create an array of social and public benefits, which require to be managed and controlled. And we can observe that some authors pointed it out already in other sport cases. This issue arises frequently in sport in the USA, where cities are prepared to build, at taxpayers' expense, multimillion-dollar stadia to attract a professional football, baseball, basketball or ice-hockey franchise [Euchner 1993; Leeds, von Allmen 2011; Winfree, Rosentraub 2012]. An answer to the need for effective management of sports projects is the model of economic sport value and the Social Return On Sport Investment measurement method. It can be noted similar attitude in management, controlling and measuring of other sectors such as: culture, recreation, renewable energy sources. All mentioned sectors have some similarities because all of them deliver wide range of social benefits which is hard to value only by financial methods. Looking for effective way to measure social, economic value delivered by business model of sport clubs it is recommended to base on social accounting methods [Grey et al. 2011].

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