

## The Link between Degrees of Social Involvement and Financial Performance in Professional Sport Franchises: The Case of Major League Baseball Teams

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U.S.-based professional sport teams have given great attention to socially responsible initiatives. Currently, the majority of the teams in major U.S. professional have established some type of charitable foundation (Extejt, 2004; Robinson, 2005). Every U.S. major league team has a community outreach or community affair department, and initiates a variety of socially responsible programs, including athlete volunteerism, community development, community initiatives, educational initiatives, fan appreciation, and community based environmental programs (Babiak & Wolfe, 2005; Walker, 2007). It is suggested that high community involvement of professional sport teams have a positive impact on their business related outcomes, such as the establishment of emotional connections with their fans, improvement of their reputation, and generation of positive publicity (Babiak & Wolfe, 2005; Walker, 2007; Walker, Kent, & Rudd, 2007). Studies examining the link between social initiatives and firm performance are not new. Numerous studies have found that socially responsible initiatives have a direct or indirect impact on job-seekers' perceptions of the attractiveness of companies (Backhaus, Stone, & Heiner, 2002), product evaluations of consumers (Berens, van Riel, & van Bruggen, 2005), organizational commitment of employees (Peterson, 2004), and organizational effectiveness of companies (Zahra & LaTour, 1987). Furthermore, considerable attention has been given to the relationship between the level of social involvement and corporate financial performance (e.g., Aupperle, Carroll, & Hatfield, 1985; Campbell, Moore, & Metzger, 2002). Almost half of studies examining this relationship indicated that firm involvement in socially responsible initiatives is positively associated with financial performance (Margolis & Walsh, 2003).

Despite the acknowledged importance of investigating the relationship between social involvement and financial performance, only a few studies have examined this relationship in the context of professional sport organizations. Extejt (2004) examined how charitable contributions made by U.S. major league teams' foundations were associated with their financial outcomes (i.e., sales, revenue, and profit). This study suggested that there were no statistically significant relationships between these variables; however, the study has some limitations due to invalid measures of financial performance, omission of control variables, and its single-year observations (Margolis & Walsh, 2003). Therefore, it is necessary to conduct further research by taking into account these three limitations. The purpose of the current study was to identify the relationship between degrees of social involvement by professional sport teams and their financial performance. Following Waddock and Graves (1997), we hypothesized that social involvement is both a determinant and outcome of team financial performance. Specifically, three relationships were investigated: (1) the relationship between the previous year's social involvement of teams and their financial performance in the following year; (2) the relationship between social involvement and financial performance in the same year; and (3) the relationship between the previous year's financial performance and social involvement in the following year. The first two relationships examined the effects of social involvement by teams on their financial performance, whereas the third relationship investigated the effects of financial performance on degrees of social involvement.

We collected performance data for all U.S.-based MLB teams (Canadian teams were omitted) for the five-year period from 2002 through 2006. We utilized numerous sources to collect our data. First, social involvement data was obtained from the IRS Form 990 which is reported annually by each team-owned foundation. This construct was measured by the amount of annual charitable contributions given by the team-owned foundation in each respective period. The use of charitable contributions for measuring social involvement is consistent with other relevant studies (e.g., Campbell, Moore, & Metzger, 2002; Extejt, 2004; Galaskiewicz, 1997; Wang, Choi & Li, 2005). To measure the financial performance of MLB teams, operating margins and revenue growth were calculated based on data reported in Forbes: the Business of Baseball. These measures have been commonly used to evaluate accounting-based performance of firms (McGuire, Sundgren, & Schneeweis, 1988). In order to control for the possible effects of other independent variables on financial performance, the following variables were included in the analysis: winning percentage of the focal season, winning percentage of the previous season, player expense, stadium age, median family income of the franchise's metropolitan area, population size of the franchise's metropolitan area, player expenses, stadium age, and Fan Cost Index. In addition, possible effects of team size were controlled by dividing the value of each team's charitable contributions by its total annual revenues (Wang et al, 2005).

As mentioned previously, our study was based on data for the five-year period from 2002 through 2006. Additional data was collected for the two financial performance variables for 2001 and 2007 respectively. Our preliminary data set consisted of 142 observations. However, due to incomplete data related to key variables, 34 observations were omitted. Thus, our final dataset consists of 108 observations, representing 20 observations in 2002, 21 (2003), 22 (2004), 22 (2005), and 23 in 2006. Multiple

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regression analyses demonstrated that total charitable contributions have a significantly negative effect on operating margins ( $\beta = -.19$ ,  $p < .01$ ), but no significant effect on revenue growth ( $\beta = .12$ ,  $p = .26$ ) in the same year. The results also indicated previous year's high degrees of social involvement by the MLB teams may decrease operating margins ( $\beta = -.17$ ,  $p = .04$ ), but have no effect on revenue growth ( $\beta = .05$ ,  $p = .65$ ) in the following year. Furthermore, the study did not find significant effects of previous year's financial performance on levels of social involvement in the following year [operating margins:  $\beta = -.21$ ,  $p = .06$ ; revenue growth:  $\beta = -.14$ ,  $p = .15$ ].

Overall, the results indicated that high degrees of social involvement by MLB teams may not lead to improvements in their financial performance. In fact, the results showed that high social involvement may decrease operating margins of these teams. The study also suggested that teams with high financial performance may not increase their degrees of social involvement in the following year. A caution should be made, however, because this study only examined the U.S.-based MLB teams that reported their charitable contributions. In addition, this study did not examine the potential interaction and/or mediating effects of some variables on the relationship between financial performance and social involvement. It is suggested that variables, such as customer satisfaction and corporate abilities, may influence this relationship (Luo & Bhattacharya, 2006). Therefore, we believe that further research utilizing more complete datasets and additional moderating and mediating variables is needed.