Is Private Management of NCAA Division I Basketball Arenas a Trend?

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Traditionally, sports facilities in general have been owned and operated by the public sector (i.e., government-created authorities and universities), but in the last couple of decades, a trend towards outsourcing the entire venue to private management companies has gained momentum (Mulrooney & Styles, 2005; Steinbach, 2004). Private management companies can offer a large range of services to assist facility owners to reduce costs and increase revenue from their arenas operations (Global Spectrum, 2009; SMG, 2009; Steinbach, 2004).

As microcosms of colleges and universities, athletic departments are expected to have their own budget, pay their share of administrative and direct operating expenses (including debt service and provisions for renewal or replacement), be self-sufficient, and outsource services of functions that are not core activities (Burden & Li, 2005; Li & Burden, 2002; Penny, 2008). A study conducted to examine the operational policies and procedures of intercollegiate athletic arenas in three decades ago found that all the facilities under the investigation were either managed by athletic departments (31%) or by other university departments (69%) (Bankhead, 1975). However, since early 2000, some NCAA Division I athletic departments have turned to private management companies for the operation of their sport facilities, such as basketball arenas, as a strategy to cut costs, increase revenues, and acquire needed expertise (Global Spectrum, 2009; Mulrooney & Styles, 2005; SMG, 2009; Steinbach, 2004). Private management companies’ expertise and leverage, combined with the arenas’ revenue generation potential, can create opportunities for financial gain to all parts involved (Steinbach, 2004).

Is private management of NCAA Division I basketball arenas a trend? This exploratory study was designed to answer this question. Specifically, it attempted to describe the current outsourcing status of management of NCAA Division I basketball arenas and identified institutional/arena characteristics that affected the outsourcing decision. A data set of 346 arenas currently utilized by public and private institutions playing NCAA Division I men’s basketball was developed through searching private management companies, athletic department, institution and arena’s websites to identify which institutions outsource their arenas’ operation. A triangulation technique was then utilized to verify the reliability of the information obtained from the website search by crosschecking the information among the websites searched. Both descriptive statistics and multivariate statistical procedures were utilized in data analysis.

The results of the descriptive analysis showed that out of 346 institutions studied, 31 or about 9% of arena were managed by private management companies. It implies that over the last three decades, private management has gradually made inroads into NCAA Division I basketball arenas. However, we were unable to determine if in fact a trend exists.

A discriminant analysis, including enrollment, community size seating capacity, institutional type, and venue ownership, was utilized to identify variables that potentially could affect the decision to outsource the whole operation of NCAA Division I basketball arenas. “Discriminant analysis is used primarily to predict membership in two or more mutually exclusive groups” (George & Mallery, 2001, p. 264). The model would differentiate those athletic programs that have outsourced their arena operations from those utilizing other management models. A structure coefficient that was greater than .30 indicated its importance in separating groups. Two independent variables were identified to have this quality and they were significant (p < .001) in differentiating those athletic programs that have outsourced arena operations to private companies from those utilizing other management models. The results showed that only seating capacity (Wilks' Lambda = .914, p < .001) and venue ownership (Wilks' Lambda = .841, p < .001).

Outsourcing has been found to be an effective measure in containing costs and increasing revenue (Jewell, 1998; Steinbach, 2004). The pressure for cost reduction, revenue generation, and acquisition of expertise pushed institutions towards outsourcing their basketball arenas’ operations to private management companies as they can provide the institutions with the expertise and market leverage needed to be financially successful (Steinbach,

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2004). However, the results of this study did not show a strong presence of private management companies within NCAA Division I.

In order for a private management company to enter an outsourcing agreement, an institution’s basketball arena must have a considerable revenue generation potential (Jewell, 1998). Seating capacity, the center piece in the revenue formula, becomes an essential criterion to the outsourcing agreement. A venue with smaller seating capacity may not be appealing to private management companies (Jewell, 1998). The results of this study confirm such condition, as it reported that both seating capacity and venue ownership were significant in differentiating those athletic programs that have outsourced arena operations to private management companies from those utilizing other management models. Such results implied that, without large arena seating capacity, institutions may not have the access to the financial benefits that a contract with a private management company brings.

The present study was only intended to examine the current status of arena management outsourcing among NCAA Division I institutions. In order to obtain a comprehensive understanding of the outsourcing trend in collegiate arenas management, further studies are necessary. For instance, an analysis of the arena characteristics that are most appealing to private management companies, combined with an analysis of the reasons and factors that may influence the athletic directors’ decision to adopt a certain arena management model, would possibly help explain why so few institutions opt to have their arenas managed by private management companies. It would also possibly explain why companies other than the two major management companies (SMG and Global Spectrum) are not competing in the college arena market.