Professional Teams and Charitable Foundations: Doing Well at "Doing Good?"

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Professional sport teams have a long history of charitable involvement in their host communities, as their involvement serves to attract attention for charitable causes and deliver public relations benefits to the team. Over the past two decades in the United States, there has been a pronounced increase in the formalization of such involvement through the creation of team-affiliated nonprofit foundations. In 1963, the New York Yankees were the first team to incorporate an independent charitable foundation, and it is widely cited that by 2001, 74 of 112 U.S.-based professional sport teams had independent charitable foundations that filed annual financial documents with the Internal Revenue Service (Extejt, 2004). According to our updated research, currently 97 of 113 U.S.-based teams have independent charitable foundations.

Researchers in this area have looked at the relationship between athletes and their foundations (e.g., Burch & Murray, 1999; Robinson, 2005), foundation and team performance (e.g., Inoue, Kent, & Lee, 2011), and how corporate social responsibility (CSR) activities are communicated by teams (e.g., Walker, Kent, & Vincent, 2010). However, the specific operations of professional sport team foundations have yet to be investigated. While it is important to note that teams engage in much community-based outreach independent of their foundations, an assessment specific to these foundations is necessary in order to determine their distinctive features and the degree to which traditional nonprofit financial metrics apply to these foundations. From a managerial perspective, an improved understanding of the financial performance of sport team foundations would allow for identification and sharing of best practices and sources of comparative advantage across foundations to maximize benefits to both sport teams and their host communities. As such, the purpose of the current research is (1) to compare performance of sport team foundations with nonprofit sector benchmarks; and (2) to assess the relative performance of team foundations.

For benchmarking, standards were adopted from Charity Navigator, the most comprehensive nonprofit watchdog group. The program spending and fundraising efficiency ratios used by Charity Navigator are consistent with the metrics found in the nonprofit literature (e.g., Callen, Klein, & Tinkelman, 2003; Frumkin & Kim, 2002; Yetman & Yetman, 2002). In addition, team foundations were compared to sector standards from the nonprofit literature (Greenlee & Bukovinsky, 1998). Data for the nonprofits was collected from IRS 990-Form filings for the years spanning 2002-2010, resulting in a total of 695 observations. The following information was extracted from the filings: revenue from contributions/gifts/grants, program service revenue, investment revenue, special event revenue, total revenue, program service expenses, management/general expenses, total expenses, total revenues less total expenses, total assets, and total liabilities. From this information, the following financial measures were calculated: program expense ratio, fundraising efficiency, working capital ratio, operating margin, and debt ratio.

From a descriptive perspective, total program spending for all team foundations from 2002 to 2010 equaled 443,076,483, while total funds raised from contributions/gifts/grants/special events equaled $536,831,262. Net assets for individual team foundations ranged from the debt-laden (-$1,139,402) to the relatively asset rich ($6,596,904). When compared with benchmarks, foundations were found to be “in compliance” at a roughly 4:1 ratio to “non-compliance” on the key indicators of program expenditures and fundraising efficiency. When Charity Navigator’s rating system was applied to team foundations, 36% achieved the highest rating. However, 57% of community foundations in the Charity Navigator database received the highest rating. Similarly, 11% of sport team foundations received zero or one star (i.e., Charity Navigator’s lowest ratings), whereas none of the community foundations in the Charity Navigator database received such low ratings.

The authors used the one-sample Wilcoxon signed rank test to compare team foundation performance with the median values in the nonprofit literature. Several team foundation median ratios were found to be significantly different from the established benchmarks for nonprofit organizations. Specifically, sport team foundations have

lower levels of debt, lower levels of working capital, lower fundraising expenses, and lower management expense ratios. Conversely, sport team foundations have higher program expense ratios and improved fundraising efficiency as compared with nonprofit sector benchmarks. These findings suggest that sport team foundations may operate in fundamentally different ways than comparable organizations in the sector.

In addition to the comparisons described above, a ranking system was developed to compare the relative efficiency of team foundations. The ranking system was based on a combination of measures used by Charity Navigator and measures established in the academic literature, including mission expense ratio, revenue growth, program growth, program spending ratio, working capital, operating margin, and debt ratio. For each team foundation with at least four years of financial data (n=85), ratio averages were calculated. Then, for each measure, the team foundations were assigned a value of one to four, which corresponded to their quartile ranking. This ranking system was used to identify the best- and worst-performing foundations.

In this presentation, specifics of the ratio analysis conducted will be presented, and we will put forward recommendations for team foundations in terms of their financial management and policies going forward. Conventional wisdom suggests that team foundations serve a marketing or public relations function for the team. However, they are distinct from team community relations departments, and many of these organizations are required by the IRS to receive a specified portion of their total support from public sources. Thus, we will also discuss the ways that team foundations can maximize efficiency as they seek donations and support from the public for their programs.