The Impact of Revenue Diversification and Organizational Success Factors on the Financial Situation of Sport Governing Bodies in Germany

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Sport systems usually consist of numerous sport federations and associations which are responsible for the organization of different types of sports on different levels. In Germany, like in many other countries, the sport system is organized like a pyramid (Petry, Steinbach, & Burk, 2008). At the top is the German Olympic Sports Confederation (Deutscher Olympischer Sportbund; DOSB), which is the umbrella organization for organized sport. At the second level are several national, state, and regional sport governing bodies. At the bottom of the system are the local community sport clubs which are members of the governing bodies from the second level. Although a few studies have already looked at formalization and human resource management among sport governing bodies (e.g., Amis & Slack, 1996; Kikulis, Slack, & Hinings, 1995; Taylor & McGraw, 2006), no study has investigated their financial situation.

The purpose of this study is to look at the financial situation of sport governing bodies in Germany and to understand its determinants. Importantly, sport governing bodies are non-profit organizations which typically generate revenues from multiple sources (Kearns, 2007). Although they are not allowed to distribute profits among members (i.e. they have to be reinvested; Hansmann, 1986), financial health is critical to their sustenance (Young, 2007). However, financial health can interfere with sport-related goals as documented by the financial crisis of many professional football clubs (e.g., Andreff, 2007; Barajas & Rodriguez, 2010). Specifically, this study advances two main research questions: 1) how does revenue diversification influence the financial situation of sport governing bodies? And 2) how do sport-related and financial success factors impact their financial situation? This study contributes to the body of research on financing non-profit sport organizations by looking at sport governing bodies that have been neglected in previous research.

This study is based on the financial portfolio theory (Lintner, 1965; Markowitz, 1952), which has been applied to non-profit organizations by Kingma (1993). The main idea of portfolio theory is that organizations can decrease their financial risk by diversifying their revenue portfolio. Typically, some types of revenues like government subsidies are associated with higher risk because they are all-or-nothing in nature and are likely to be cut in difficult financial times. Other types of revenues like membership fees are of lower risk because they are constant and split revenues, i.e. many members each pay a membership fee. Sport governing bodies receive membership fees from local community sport clubs. While membership fees are paid bottom-up, subsidies are distributed top-down in the sport system. In addition, sport governing bodies can also generate income from additional sources such as donations, sponsorship, sport events, and merchandising. Previous research outside of the sport sector has shown that a high level of revenue diversification is associated with greater financial stability (e.g., Carroll & Stater, 2008; Chang & Tuckman, 1991; Greenlee & Trussel, 2000; Keating et al., 2005); however, no study has investigated this effect in sport. Based on the above noted theoretical deliberations, it is hypothesized that greater revenue diversification is associated with a better financial situation in this study.

The research questions are analysed using data from an online survey of sport governing bodies in Germany. E-mail addresses of national, state, and regional sport governing bodies were provided by the DOSB and were researched by the project team. Altogether, n=3,928 sport governing bodies were invited via e-mail to take part in the survey which was online from 23rd January to 16th April 2012. The overall sample had to be reduced by n=265 dropouts, mainly due to incorrect e-mail addresses, leading to an adjusted sample of n=3,663. A total of n=1,080 sport governing bodies participated in the survey (response rate: 29.5%). The online questionnaire contained questions regarding the financial situation (revenues, expenses, and investments in 2011), organizational success factors (sport-related and financial), and further organizational characteristics (e.g., volunteers, paid staff, facilities). Regression models are estimated to explain the financial situation of sport governing bodies. The financial situation is described with the following three dependent variables: 1) log of total revenues, 2) log of profit (total revenues-

total expenses), and 3) organization has made investments (0=no, 1=yes). The independent variables are revenue diversification and eight organizational success factors. The level of revenue diversification is measured with the Herfindahl Index (e.g., Carroll & Stater, 2008; Greenlee & Trussel, 2000). The index is calculated by adding up the squared proportions of each of the 19 revenue categories. It ranges from 0 to 1 with 1 being equivalent to total diversification. The governing bodies were asked to state the importance of 18 organizational success factors on six-point Likert scales from 1=very unimportant to 6=very important. The sport-related success factors under investigation are 1) hosting major sport events, 2) sporting success, 3) increasing memberships in clubs, and 4) organizing competitions. The financial factors are 1) increase in revenues, 2) financial support, 3) cost optimization, and 4) economic leadership (long-term financial security). The regression models also control for the size (number of volunteers and paid staff) and location of the organization (post code dummies).

The results show 61.4% of the organizations made a profit in 2011 and 32.8% made investments. The average level of revenue diversification amounts to .46 (SD=.24) indicating a lower level of revenue diversification than among community sport clubs (Wicker & Breuer, 2012). The first model for log of total revenues indicates that revenue diversification, hosting major sport events, and economic leadership have a significant positive effect, while increasing memberships and organizing competitions have a negative impact (R^2=.429). In the second model for log of profit, revenue diversification and hosting major sport events have a significant positive influence (R^2=.373). The third model shows that governing bodies with high levels of revenue diversification that pursue cost optimization and not increasing memberships were more likely to make investments (R^2=.205). Surprisingly, attaching importance to sporting success does not determine the financial situation significantly. Given these results, the initial hypothesis stating that greater revenue diversification is associated with a better financial situation can be confirmed. Thus, financial portfolio theory can also be applied to non-profit organizations in sport.

This study has implications for the management of sport governing bodies. First, it can be recommended that sport organizations increase their level of revenue diversification by looking at new income sources if they want to improve their financial situation and decrease their financial risk. Second, sport-related success factors do not necessarily interfere with the financial situation since hosting sport events seems to be a way of generating revenues and improving the financial situation. Third, attaching importance to financial success factors like optimizing costs and leading the organization more economically can also be recommended to sport governing bodies if they want to improve their financial situation. This study has some limitations that represent directions for future studies. Although this study was among the first to investigate the financial situation of sport governing bodies, the dataset is only cross-sectional. Thus, it would be useful to use panel data in future research to measure financial stability over time and its determinants. It would also be fruitful to not only look at the perceived importance of organizational success factors, but at concrete measures for organizational effectiveness and how they correlate with the financial situation of sport organizations. Replicating this study and testing portfolio theory in sport clubs and other countries would also be an interesting avenue for future research.