Scrutinizing the Nonprofit Organizational Efficiency of Professional Sport Team Nonprofit Organizations

Minhong Kim, University of North Texas
Youngmin Yoon, Eastern New Mexico University

Management - CSR (Professional Sport)  Friday, May 31, 2019
Poster  2:10 PM
Abstract 2019-231  Room: Napoleon AB corridor

Historically, professional sport teams (PST) in North America have passionately engaged with their host communities, particularly through the formation of independent nonprofit organizations (NPO). Although different types of NPOs exist under the IRS tax code, PST NPOs are classified as either public or private foundations. Fundamentally, public foundations rely heavily on contributions from a large donor base; private foundations usually have only a few major donors (e.g., founders, family members). As most PST NPOs are classified as public foundations, some critical skepticism has emerged for how efficiently they raise funds from donors and how well they function as NPOs (e.g., McGowan & Mahon, 2009; Sparvero & Kent, 2014). In the nonprofit literature, nonprofit organizational efficiency research is well established (Ashley & Faulk, 2010; Callen et al., 2003); however, no previous study has critically analyzed the fundraising efficiency of public PST NPOs and their operations. Therefore, this study scrutinized the current fundraising efficiency and management of public PST NPOs using two key nonprofit efficiency ratios (i.e., program efficiency, PER, and fundraising efficiency, FER) and through the investigation of both fundraising activities and expenses for these NPOs.

Financial statement analyses using Form 990 (an annual financial document required by the IRS for public and private foundations) were performed to investigate the nonprofit efficiency of PST NPOs. Key financial information was retrieved from documents and two financial ratios (PER and FER) were calculated to evaluate nonprofit efficiency (Tschirhart & Bielefeld, 2012). Fundraising activities and expenses were further assessed to better capture their nonprofit operation and management.

The results of 78 public PST NPOs revealed that MLB NPOs had the highest mean values for total expenses, program service expenses, fundraising expenses, total contributions received, and total revenue. NFL NPOs had the highest average PER at 0.94. However, less than half of the NPOs reported fundraising expenses; the median amount was $85,804 and ranged from $2,607 to $991,440. Although numerous NPOs host fundraising events to raise funds with acceptable FERs (ranging from .04% to 33%), not many are utilizing their financial resources to induce potential donors or increase current donor involvement. While most PST NPOs are effective in operating their charitable programs, unique fundraising activities geared toward expanding their donor bases seemed rather limited.

Given the increased competition within and outside the sport industry and shifting consumer trends, the utilization of NPOs to carry out public relation benefits could produce additional financial burdens for numerous professional sport entities. Since the establishment of NPOs became highly institutionalized and regarded as an industry norm, professional sport entities that are relatively new or in the growing stage will experience greater pressure. Further, while most PST NPOs host various events to raise funds, increasing their donor bases could lead to less financial dependence from their respective teams. In sum, PST NPO managers should find new viable ways to create effective and efficient fundraising strategies by utilizing their high-profile status and heightened media and community visibility.