

Akademia Zarządzania Sportem

STRATEGIC MANAGEMENT IN POLISH SPORT FEDERATIONS - FINANCIAL ANALYSIS

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Ministerstwo Sportu i Rekreacji | INSTYTUT SPORTU

Agenda

1. Introduction: How does finance support strategy?

2. Financial administration

- Responsibilities
- Budgeting
- Forecasting

3. Financial performance

- Metrics
- Associated ratios

4. Group exercise

2

Strategy and finance (1)

- o Companies on average allocate 90% or more of their resources to the same projects year after year, despite the changing strategic environment (Hall, et al. 2012).
- o Fewer than 25% of companies examine their own internal financial projections and performance when designing a strategy (McKinsey Global Survey, 2011)
- o Sound financial management can be a source of competitive advantage.

3

| Strategy and finance (2)

- o Sports organizations are generally not-for-profit. As such, they face a peculiar financial situation whereby they need financial support for their sports program, yet they also want to retain their autonomy (Winand, et al. 2013).
- o The funding of sports organizations is a mix of donations, grants, dues, and other sources. The first two can be volatile.
- o Most sports organizations, even those that are professional and generate profits, have been slow to adopt financial and operating metrics (Troilo, et al. 2016). As a result, they cannot plan their strategies adequately.

4



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Financial Administration
 - Responsibilities
 - Budgeting
 - Forecasting and planning

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| Responsibilities

- o Monitor all cash flows.
- o Understand and communicate financial fundamentals
- o Curtail expenses where feasible.
- o Audit the financial performance and make inquiries when needed.
- o Budget for both operating expenses as well as one-time, significant expenditures (purchase of equipment, etc.)
- o Evaluate and purchase insurance
- o Keep current on tax issues.
- o Prepare financial statements and other ad hoc reports for stakeholders.

The above is summarized from the Ohio University Online Master's of Athletic Administration blog:
<https://onlinemasters.ohio.edu/blog/finance-administration-of-sports-budgeting-forecasting-and-planning/>

6

Budgeting



- o Always remember: Cash is king!
- o When are fees, dues, and donations expected? What happens if they are late? How can you collect?
- o Set your expenses at a reasonable level. It is common to underestimate how much things will cost.
- o Reassess your budgeting choices. Is it possible to trim in some areas? Often, people will budget by copying last year's number, without analyzing the need.
- o What significant expenditures might be needed in the upcoming year?

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7

Forecasting and planning



- o In many ways, forecasting and planning are similar to budgeting, but the emphasis is on the future.
- o The first important question is: where do you want your organization to go? The second important question is: how will you get there?
- o Plans need to be flexible. Try to create scenarios (best, worst, and most likely), and the resources you will need for each one.
- o Set monthly goals, and measure how close you come to meeting them.

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8



Financial performance metrics

- Public funds dependence
 - Financial balance
 - Attraction of resources
 - Member services investment
 - Elite services investment
- Source: Winand, et al. 2012



Public Funds Dependence 

- o As described, it is the level of a sports organization's reliance on public funding.
- o Ratio: Amount of public funds/Total revenue
- o Ratio: Amount of public funds/Total expense
- o Example: a sports organization had PLN 2 million in total revenue, PLN 1.5 million in total expense, and received PLN 1 million in public funds. What is its level of public funds dependence?

The above is from Winand, Zintz, and Scheerder (2012), "A financial management tool for sports federations". *Sport, Business, and Management: An International Journal*, 2(3): 225-240.

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Financial balance 

- o This metric captures the financial stability of an organization.
- o Ratio: Total revenue/Total expense. Hopefully, this is greater than 1!
- o Ratio: Profit/Total revenue. In the paper, profit is called "net revenue"; here, net revenue = total revenue – total expense
- o Example: a sports organization had PLN 2 million in total revenue and PLN 1.5 million in total expense. What are its financial balance ratios?

The above is from Winand, Zintz, and Scheerder (2012), "A financial management tool for sports federations". *Sport, Business, and Management: An International Journal*, 2(3): 225-240.

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Attraction of resources 

- o As described, this is a revenue-generating metric.
- o Ratio: Grants per member.
- o Ratio: Total revenue per member.
- o Ratio: Membership revenue per member
- o Example: a sports organization had PLN 2 million in total revenue, of which PLN 1.5 million is in grants and the remaining PLN 0.5 million is membership revenue. It has 1,000 members. What are its attraction of resources ratios?

The above is from Winand, Zintz, and Scheerder (2012), "A financial management tool for sports federations". *Sport, Business, and Management: An International Journal*, 2(3): 225-240.

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Member services investment



- o This metric reflects spending on regular members v. elite participants, e.g. Olympic athletes.
- o Ratio: Member services expenses/Total expenses.
- o Ratio: Member services expenses/Membership revenue. In the paper, this ratio is called a "membership financial return".
- o Example: a sports organization had PLN 1.5 million in total expenses, PLN 0.3 million of member services expenses, and PLN 0.5 million is membership revenue. What are its member services investment ratios?

The above is from Winand, Zintz, and Scheerder (2012), "A financial management tool for sports federations". *Sport, Business, and Management: An International Journal*, 2(3): 225-240.

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Elite services investment



- o This metric is the opposite of the previous one. It reflects spending on elite participants v. regular members.
- o Ratio: Elite services expenses/Total expenses.
- o Example: a sports organization had PLN 1.5 million in total expenses, of which it spent PLN 0.15 million on its elite athletes. What is its elite services investment?

The above is from Winand, Zintz, and Scheerder (2012), "A financial management tool for sports federations". *Sport, Business, and Management: An International Journal*, 2(3): 225-240.

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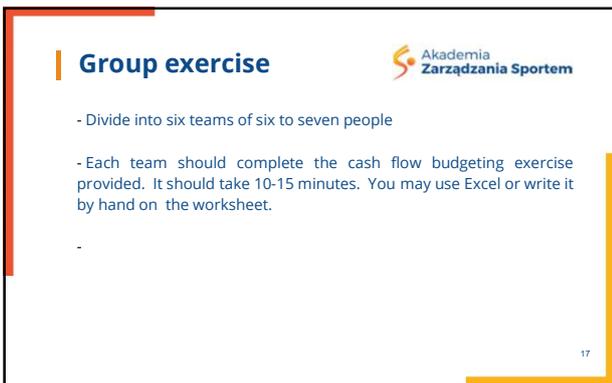
Benchmarking

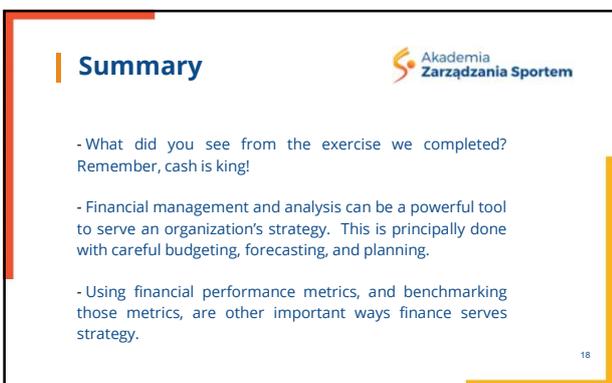


- o We have just calculated a series of ratios, but how do we know if they are "good" or not? We cannot tell without a basis of comparison.
- o One point of comparison would be internally over time. One could track internal trends for each ratio.
- o Another point would be with clubs from other nations. This could also be done over time, so that one could see whether the distance between one's own club and the best performer diminished or grew.

1









Thank you

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19
