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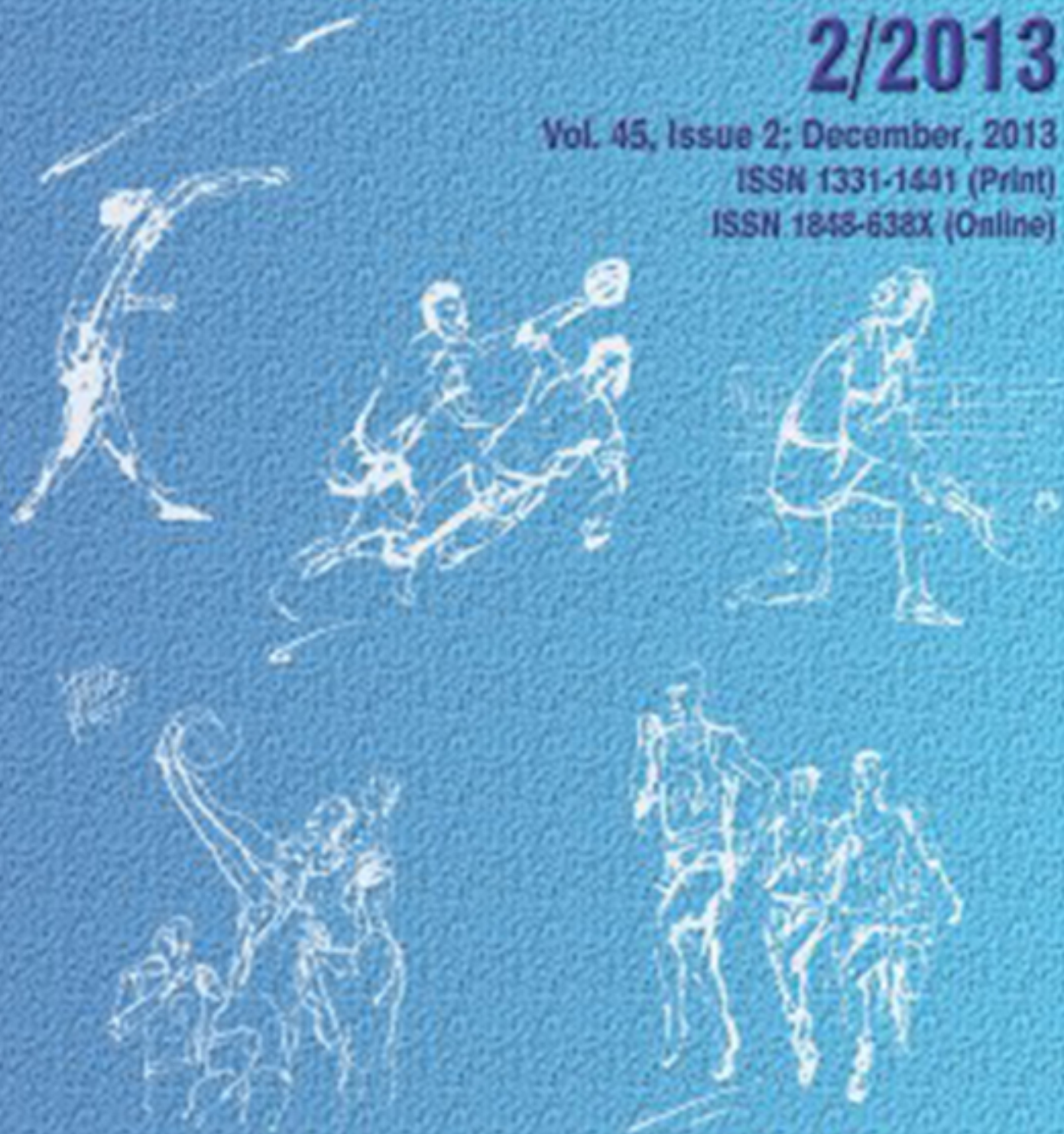
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FINANCIAL TAXONOMY OF NON-GOVERNMENTAL SPORTS ORGANIZATIONS

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Abstract:

The purpose of this study was to examine the classification of non-governmental sports organisations (sports NGOs) based on their financial data. Empirical taxonomy with Ward's hierarchical clustering technique based on the variables acquired from financial statements of all 6,130 sports NGOs in Slovenia was used to cluster organisations into three financial design types: grassroots sports organisations, semi-professional sports NGOs, and professional sports NGOs. Clusters varied in magnitude and structure of financial items. The findings suggest that the business of grassroots sports organisations is very simple, while with semi-professional and professional sports NGOs it is more complex, and consequently such organisations are confronted with cash flow and even solvency problems. Total average revenues of grassroots sports organisations (€6,304) are approximately one tenth the size of the semi-professional sports NGOs and 192 times smaller than professional sports NGOs. As for the structure of revenues, professional sports NGOs have a larger proportion of *sales revenues* and much lower *membership fees*, *donations*, and *other revenues*. Semi-professional sports NGOs differ from grassroots sport in a slightly higher proportion of *sales revenues* and *donations*. As regards the structure of expenses, professional sports NGOs had a 5.6 times higher proportion of *labour costs* in comparison with grassroots sports and 1.4 times higher compared to semi-professional sports NGOs. Such a taxonomy could present an appropriate basis for investigating the true dimension of the impact of global economic crisis on sports NGOs in a small European sports economy.

Key words: *sports finances, sports economy, classification, grassroots sport, professional sport, sports club*

Introduction

The financial market turmoil in 2007 and 2008 has led to the most severe financial crisis since the Great Depression (1929 to 1932) and threatens to have severe repercussions on the real economy (Brunnermeier, 2009). In early 2007, the global economy entered a tumultuous period of contraction in real economic activity and disruption in financial markets. Economic growth in advanced economies fell from 2.8% in 2007 to -3.7% in 2009, while it grew by 3.1% in 2010, by 1.6% in 2011 and by 1.3% in 2012. The world economic outlook suggests a modest recovery for the period 2013 to 2016 (IMF, 2013). Although the crisis was triggered by

the bursting of the housing bubble in the United States, forcing banks to write down several hundred billion dollars in bad loans caused by mortgage delinquencies, it has spread throughout the world with dire consequences for many industries. An overview of the globalisation of the sports economy (M. Andreff & W. Andreff, 2009; W. Andreff, 2008) is based on the hypothesis that sports industry could not remain unaffected. Sports organisations have different organisational forms, operating methods, goals and institutional characteristics than firms in other sectors of the economy, so there is good reason to expect them to react differently to economic and financial downturns than other enterprises (Humphreys, 2010, p. 40). Therefore, the

global financial crisis presents significant challenges for the growth of sports industry, representing a serious setback, because it is occurring at a time the sports business had begun to progress in economic performance. However, there are different types of sports organisations with various patterns of structural design and, consequently, business operations regarding their missions, goal-related activities and their environment. Therefore, different types of sports organisations could be differently affected by global financial crisis.

There is paucity of empirical studies that have analysed impacts of recession on sport, probably because of a relatively short period since the start of the global financial crisis. Most studies were carried out on professional sport, but not all of them agree that the global financial crisis has caused an economic recession in this part of sports industry. Humphreys (2010) found that the financial crisis had a significant negative impact on professional sports leagues in North America; a similar trend was also experienced in university and college sports (Aughey, Danylchuk, & Lebel, 2011; Denhart, Villwock, & Vedder, 2009; Zimbalist, 2010). The situation is somewhat different in Europe. Club football, the most professionally managed sport in Europe, faced its own financial crisis even before the global economic crisis (W. Andreff, 2007; Barajas & Rodríguez, 2010; Lago, Simmons, & Szymanski, 2006; Morrow, 2004). However, unlike professional sport in North America, European club football has not had declines in revenues thus far. The 'big five' European football leagues have shown admirable resilience to the economic climate in terms of revenue generation, although the imbalance between revenues and costs has generally worsened (Deloitte, 2013). Unlike professional football clubs, other sports organisations have generally fewer opportunities for revenues from match days, broadcasting, merchandising, trade of players and sponsorship; therefore, they are more dependent on other revenues. A few empirical studies have revealed a negative impact of global economic crisis on non-professional sport sector in Europe. Findings from Turkey (Coşkuner, Gacar, Çoban, & Devocioğlu, 2011; Devocioğlu, Cerrahoğlu, Çoban, & Karademir, 2011) show that the crisis deeply affected sports sponsorship revenues in 2009. This corresponds to sharp fall of Turkish GDP in the same year (Trading Economics, 2013). In a study from Moldova, which reviewed the impact of global financial crisis on public service delivery from 2008 to 2010, a decrease of government and local finances for sport was also observed (Cainarean, E. Veverita, & P. Veverita, 2011).

Following the previously mentioned arguments, in order to properly understand the impact of global crisis in Europe, more thorough analyses on different types of sports organisations according to

the European model of sport should be conducted. Therefore, the purpose of this study was to investigate the taxonomy of non-governmental sports organisations (sports NGOs) in Slovenia, based on financial information about their activities. Suitable classification could enable the analysis aimed at gaining a better insight into the impact of global crisis on a small European sports economy, such as Slovenia.

An overview of studies on classification of sports organisations (Gomez, Opazo, & Marti, 2008; Wolfe, et al., 2005) revealed that there is abundant literature in this research field; nevertheless, most studies were generally concerned with organisational structure. The discussion about the structural characteristics of sports organisations has considered various kinds of organisations among those existing in the world of sports: public, private and voluntary organisations; for-profit and non-profit organisations; organisations producing sporting goods; organisations delivering sporting activities; organisations creating competitive sport opportunities and broadcasting sports events as well as many other organisations related to sports industry. According to Gomez et al. (2008), all these sports organisations are associated with sporting activity; differing in their goals and means, they all respond to the superior mission of promoting and developing sport in society. Classification of sports organisations into three types has been suggested: sport-governing bodies, sports event organisations and entities providing sports activities. The first type are sports organisations administering and regulating sports, focusing on its development at all levels and guaranteeing the rules both of the game and of the competition (i.e. national associations, federations, Olympic committees). The second type are sports organisations producing sports spectacles, aiming to satisfy and articulate the needs of professional sports (i.e. leagues, associations, circuits, tours). The third type includes organisations producing and delivering recreational or competitive sports programmes at the local level (i.e. clubs, community centres, fitness centres, university sports programmes).

However, even within the same type of sports organisations there could be substantial differences in structural characteristics due to a different span of goals (one organisation could merely carry out activities for closed groups of members, while another struggles to enlarge its membership), human resources (one organisation could focus mainly on voluntary work, while others incorporated professional work), facilities (an organisation could own the facility and have to manage it), possibilities for the commercialisation of organisation's activities (influence on organisation operations for marketing strategies and revenues creation) and other factors. Differences arise through three main processes of

organisational change: bureaucratisation (Kikulis, Slack, & Hinings, 1989; Slack, 1985), rationalisation (Slack & Hinings, 1987; Westby & Sack, 1976), and professionalisation (Amis, Slack, & Hinings, 2004; Kikulis, 2000; Thibault, Slack, & Hinings, 1991). These three processes relate to a shift in sports organisations from an amateur logic towards a more formalised and professional one.

A variety in structural design within one type of sports organisations has been confirmed via a taxonomy by Kikulis et al. (1989) and by Jurak, Bole Breznik and Bednarik (2009). Kikulis et al. (1989) found eight structural design types in Canadian amateur sports organisations while studying three dimensions of organisational structure: specialisation, standardisation, and centralisation. Findings by Jurak et al. (2009) about various distinctive features of Slovenian sports NGOs (professionalisation, membership, diversity of sports programmes, finances) suggested the classification of sports NGOs into three groups.

The first group was termed the *Organiser of Large Sports Events*. It consists of very few sports NGOs, whose main source of revenues is the organisation of competitive or recreational mass participation events, which are attractive to media and sponsors.

The second group of sports NGOs was termed the *Large Organiser of Sports Training in Competitive Sport*. This group draws the most of media attention and clusters together sports organisations with above average revenues, large membership and numerous human resources that work in competitive, mostly professional sport. This group requires substantial financial resources in order to fulfil their ambitions.

The third group was termed the *Small Organiser of Competitive and Recreational Sport*; the sports NGOs included in this group mainly carry out activities in order to satisfy the needs of their members. As a result, they are based exclusively on a voluntary basis and create below-average revenues.

Although it is a well known fact that there is a variety of design types of sports organisations, which are connected in one way or another to sports industry, the authors did not find any typology related to the financing of these organisations in international scientific literature. As long as financing remains a topic of great interest in the business world, the sports world must also adapt and apply general principles in order to maximise the stability of sports organisations and to ensure that the financial dimensions are well maintained. Therefore, the authors of this study believe it would be reasonable to identify financial design types of sports organisations, to analyse their financial performance and to help enhance the overall fiscal success of sports organisations, since this is an

important aspect of the impact of global crisis on sports NGOs. Consequently, the aim of this study is not to present a classical typology, but a financial taxonomy of Slovenian sports NGOs derived from empirical data, which can be acquired from their financial statements.

Methods

The survey examined financial data in the population of 6,130 sports NGOs in Slovenia, sports clubs (societies) and sports federations (associations of sports societies) that have been founded according to the Society Act, and that provided the income statements and balance sheets of organisations for the year 2010, and had any revenues in the same year. Data in this study was acquired upon the request of the authors from annual financial reports from the Agency for Public Legal Records and Services in the Republic of Slovenia.

Ten primary financial variables (marked with an asterisk later in the text) were extracted from eighty-one items that were included in balance sheets and income statements of sports NGOs. A small number of variables was extracted from the larger sample with the use of factor analysis, which explained the variance in original variables. The extracted variables were then used in an empirical taxonomy in order to identify different financial types of sports NGOs. Differences between various financial types of sports NGOs were described using four elements of financial statements:

- (1) assets – anything owned by a sports NGO that has probable future economic or exchange value;
- (2) liabilities – debts or obligations of a sports NGO assumed by business operations;
- (3) revenues – money received by a sports NGO for goods sold or services rendered during a certain time period;
- (4) expenses – money spent or costs incurred in sports NGO's efforts to generate revenues, representing the cost of doing business.

The following financial variables were used for this purpose:

- two variables regarding the assets of sports NGOs:
 - Long-term assets are organisation's ownership (i.e. sports facility, premises, and cars), equipment (e.g. sports equipment) and other capital assets expected to be usable for more than one year, minus depreciation (a decrease in the value of assets due to the utilisation over a particular period of time).
 - Current assets are assets of a short-term nature that can either be converted to cash or used to pay current liabilities within a normal operating cycle of an organisation (usually less than one year). The major types

- of current assets include cash, receivable accounts, inventory and prepaid expenses (i.e. insurance).
- three variables regarding the liabilities of sports NGOs:
 - Society's funds* comprised of the amount of money at the time of foundation, surplus of income and unpaid expenses. When unpaid expenses are larger than the amount of other elements of the society's fund, the difference is presented as an item reducing liabilities to assets.
 - Long-term liabilities* are existing obligations or debts that are not expected to require repayment within the current accounting period. In the case of sports NGOs, the most common forms of this financing activity are the loan payables and long-term accruals.
 - Current liabilities are obligations or debts that are due within one year. They include short-term debt, taxes payable, interest payable, wages payable, accounts payable, short-term accrued liabilities and other debts.
 - five variables regarding the revenues of sports NGOs:
 - Sales revenues* comprised of the revenues generated by sales of products or merchandise and of materials and services provided during the accounting period (such as revenue from sport instruction, ticket sales, sponsorship contracts, media rights, merchandising, food and drink sales in clubhouses, trade of players, the rental of premises, the organisation of sports and non-sports events within the club's premises, tournament fees, own lotteries, etc.).
 - Public funds* include subsidies and grants from local authorities and government, and revenues from licensed lotteries, gambling and betting operators channelled to the sports sector via a specialised institution in Slovenia: the Foundation for Sport.
 - Donations* are revenues from individuals and companies, given without an expectation of a commercial return, as well as from the financial flow between sports associations and sports clubs.
 - Membership fees* are set amounts of money (subscription) that are paid regularly in order to be a member of a sports organisation.
 - Other revenues are comprised of the operating revenues not reported elsewhere, non-operating revenues, which can be derived from interest earned or some other non-operation-related items, such as depreciation recovered on the sale of assets, and extraordinary revenues increasing income.
 - six variables regarding the expenses of sports NGOs:
 - Costs of materials are the original costs of materials purchased and directly consumed in the production of products and in rendering of services (direct costs of materials, such as sports equipment costs, car costs, office supplies, purchasing of food and drink, etc.), as well as the costs of materials that do not have this character, but are included in the functional group of indirect operating costs.
 - Costs of engaged services* are the original costs of services acquired and directly used in the production of goods and in rendering of services (direct costs of services, such as premises rental, players' or personnel contracts, competition fees, travelling costs, insurance premiums, etc.), as well as the costs of services that do not have this character, but are included in the functional group of indirect operating costs.
 - Labour costs* are the original costs associated with accrued gross wages and salaries and similar benefits, as well as taxes and contributions that are not part of the gross amounts, but an entity has to pay them on this basis.
 - Donations given* are amounts of money given by sports NGOs to other sports organisations without any expectation of a commercial return; they are mostly donations of sports associations for their members, i.e. sports clubs.
 - Bad debts* are accounts receivable that are unlikely to be paid and are considered as a loss.
 - Other expenses include operating *expenses* not reported elsewhere, non-operating expenses, such as interest expenses, and extraordinary expenses that reduce income.
- The analyses were carried out with Statistical Package for Social Sciences (SPSS) version 19.0 as well as the R software environment for statistical computing and graphics. Basic descriptive statistics were calculated for all variables while cluster analysis using Ward's hierarchical fusion algorithm clustering technique was carried out for measuring the financing of sports NGOs. It must be noted that before clustering all variables were standardised and that the sums of squared Euclidean distances were chosen for calculating the distances between each entity and the mean of a cluster to which it belongs. Cluster analysis was used as a statistical method by which groups of similar attributes have been identified from a collection of data. Moreover, the clusters of organisations were examined in order to develop homogeneous subsets of sports NGOs.

RESULTS

The results of Ward's hierarchical clustering are presented in Figure 1. The dendrogram shows that three clusters were finally extracted and merged.

The bottom row represents data (individual observations, sports NGOs) and the progressive clustering of sports NGOs, which finally resulted in three extracted clusters, can be observed. The high range of distances (y-axis) indicates that there were numerous dissimilarities in finances between sports NGOs; therefore, it was not easy to create reliable clusters from the collected variables.

The basic descriptive statistics of the clusters are presented in Table 1. It can be observed that the clusters of sports NGOs vary in size; the differences between them occurred due to the magnitude of financial items and the structure of individual elements of financial statements (see percentages within assets, liabilities, revenues, and expenses). Cluster 1 represents the largest group of sports NGOs with the smallest figures in financial statements. The average total revenues of sports NGOs in this cluster are approximately 10 times smaller than the sports NGOs from Cluster 2 and 192 times smaller than the sports NGOs from Cluster 3. The differences increase when items from balance sheet (assets and liabilities) are observed. Clusters also differ according to the proportion of clubs and associations included (see Table 2).

In the structure of assets, short-term assets prevail in Cluster 1, whereas in Clusters 2 and 3 long-term assets are more prominent. Differences between the clusters in the structure of liabilities have been most noticeably marked with the item *society's fund*; this is the only presented item of financial statements that can also be negative in its value and, in the case of this attribute, the largest standard deviation has been observed. In Cluster 1, 22.5% of sports NGOs have a negative *society's fund*, whereas in Cluster 2 the proportion of such organisations

was 25.4% and in Cluster 3 it was 34.9%. Negative *society's funds* increase the long-term liabilities of sports NGOs, which have been most noticeable in sports NGOs from Cluster 3. Significant differences have also been shown to exist for the item *current liabilities*, which in sports NGOs from Cluster 3 were by far the largest in their structure of liabilities. This influences the current ratio (current assets/current liabilities) of sports NGOs (a classic measure of liquidity), which was 0.64 for the third cluster, 0.97 for the second cluster and 1.43 for the first cluster of sports NGOs.

In the structure of revenues, Cluster 3 stands out with significantly larger proportion of *sales revenues* and much lower *membership fees*, *donations*, and *other revenues*. Cluster 2 differs from Cluster 1 in its slightly higher proportion of *sales revenues* and *donations* as well as the lower proportion of *public funds* and *other revenues*.

The item *costs of services* represents more than two thirds of all expenses in all three clusters, with the proportion growing from Cluster 1 to Cluster 3. Large differences in the structure of expenses have been observed in *labour costs*. Specifically, Cluster 3 has a 5.6 times higher proportion of such costs in comparison with Cluster 1 and 1.4 times higher proportion compared to Cluster 2. Quite the opposite is observed in *costs of materials*, which represents a significantly larger proportion of total expenses in organisations from Cluster 1 than those in Clusters 2 and 3. The structure of expenses is also different because of other costs items. For example, in Cluster 3, *donations given* are more common, whereas in Cluster 2 this is true for *bad debts* and in Cluster 1 for *other expenses*.

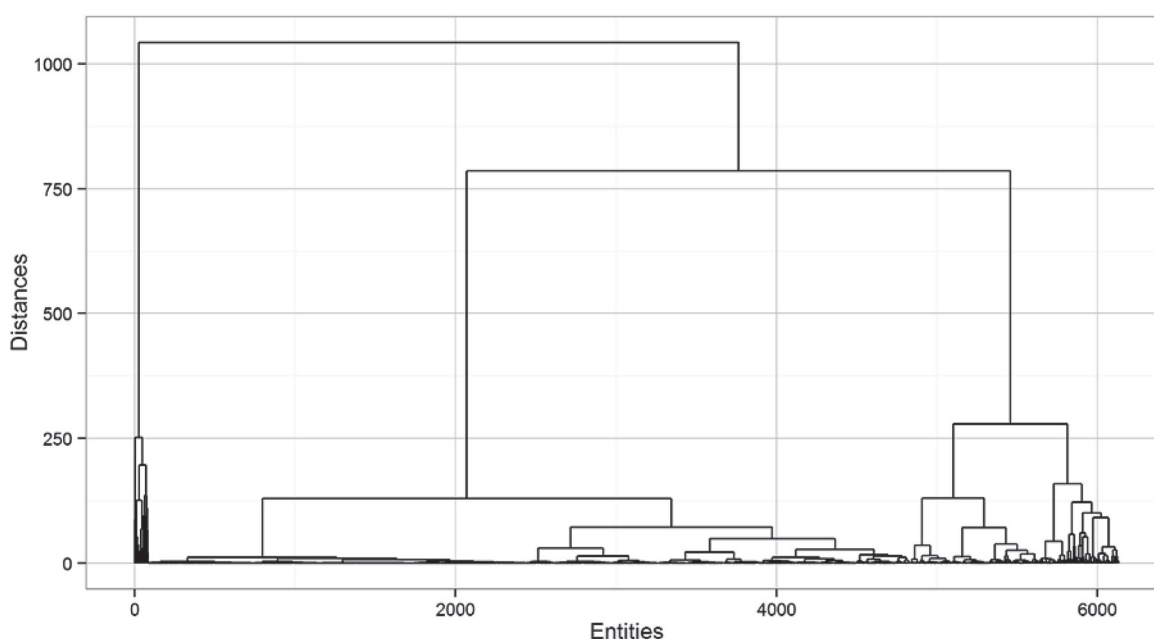


Figure 1. Hierarchical clustering of sports NGOs according to Ward's method

Table 1. Basic descriptive statistics of sports NGOs' clusters

| | CLUSTER 1 | | CLUSTER 2 | | CLUSTER 3 | |
|-------------------------|---------------------------------|--------------|---------------------------------------|--------------|--|--------------|
| | Grassroots sports n=4,749 | | Semi-professional sports NGOs n=1,298 | | Professional sports NGOs n=83 | |
| | Mean (SD) | % | Mean (SD) | % | Mean (SD) | % |
| TOTAL ASSETS | 4,143 (10,994) | 100.0 | 66,781 (172,931) | 100.0 | 1,116,286 (2,237,414) | 100.0 |
| Long-term assets | 1,408 (8,022) | 34.0 | 46,850 (158,926) | 70.2 | 670,465 (1,794,065) | 60.1 |
| Current assets | 2,735 (6,811) | 66.0 | 19,932 (37,761) | 29.8 | 445,821 (915,355) | 39.9 |
| TOTAL LIABILITES | 4,143 (10,994) | 100.0 | 66,781 (172,931) | 100.0 | 1,116,286 (2,237,414) | 100.0 |
| Society's funds | 1,848 (8,739) | 44.6 | 35,881 (151,616) | 53.7 | 174,073 (2,199,234) | 15.6 |
| Long-term liabilities | 380 (3,595) | 9.2 | 10,348 (51,342) | 15.5 | 243,801 (587,495) | 21.8 |
| Current liabilities | 1,914 (9,181) | 46.2 | 20,553 (63,583) | 30.8 | 698,412 (1,438,050) | 62.6 |
| TOTAL REVENUES | 6,304 (10,298) | 100.0 | 64,935 (89,835) | 100.0 | 1,212,121 (1,824,800) | 100.0 |
| Sales revenues | 2,087 (7,637) | 33.1 | 23,602 (64,016) | 36.3 | 766,779 (1,516,622) | 63.3 |
| Public funds | 1,785 (3,492) | 28.3 | 17,270 (30,899) | 26.6 | 269,268 (447,480) | 22.2 |
| Memberships fees | 774 (1,319) | 12.3 | 8,098 (13,180) | 12.5 | 71,289 (97,234) | 5.9 |
| Donations | 698 (1,264) | 11.1 | 9,970 (16,862) | 15.4 | 48,828 (113,953) | 4.0 |
| Other revenues | 960 (3,967) | 15.2 | 5,996 (23,019) | 9.2 | 55,956 (101,139) | 4.6 |
| TOTAL EXPENSES | 6,360 (10,330) | 100.0 | 65,967 (93,760) | 100.0 | 1,206,044 (1,759,600) | 100.0 |
| Costs of services | 4,249 (8,025) | 66.8 | 45,331 (70,733) | 68.7 | 852,836 (1,374,245) | 70.7 |
| Costs of materials | 1,383 (3,099) | 21.7 | 9,345 (16,628) | 14.2 | 99,673 (182,154) | 8.3 |
| Labour costs | 120 (1,107) | 1.9 | 5,072 (14,552) | 7.7 | 129,146 (146,916) | 10.7 |
| Donations given | 71 (565) | 1.1 | 621 (3,126) | 0.9 | 43,773 (119,327) | 3.6 |
| Bad debts | 99 (367) | 1.6 | 3,007 (7,459) | 4.6 | 34,110 (67,485) | 2.8 |
| Other expenses | 437 (1,810) | 6.9 | 2,591 (10,948) | 3.9 | 46,507 (108,488) | 3.9 |

Table 2. Financial strength of sports NGOs' clusters

| | CLUSTER 1 | CLUSTER 2 | CLUSTER 3 | All sports NGOs |
|--|------------------|-------------------------------|--------------------------|-----------------|
| | Grassroots sport | Semi-professional sports NGOs | Professional sports NGOs | |
| Number of sports NGOs | 4,749 | 1,298 | 83 | 6,130 |
| Overall revenues (€) | 29,936,162 | 84,285,830 | 100,606,067 | 214,828,059 |
| Operating revenues (€) | 29,495,395 | 83,085,395 | 98,170,374 | 210,751,164 |
| Proportion sports clubs: sports federations (%) | 96:4 | 94:6 | 66:34 | 95:5 |
| Public funds (€) | 8,474,849 | 22,416,069 | 22,349,263 | 53,240,181 |
| Proportion of sports NGOs receiving public subsidies (%) | 54 | 69 | 89 | 55 |

Table 2 presents the financial strength of individual clusters of sports NGOs according to the total revenues of sports NGOs in Slovenia and some other indicators. Operational revenues, which do not include financial revenues and some other revenues, represent 98.1% of all revenues of sports NGOs. This also includes public funds, which represent 24.8% of total revenues of sports NGOs. It can be observed that public funds are mostly given to sports NGOs in Clusters 2 and 3.

Discussion and conclusions

To the best of the authors' knowledge, this is the first study which classifies sports organisations on the basis of their financial indicators. This study shows that there are three very different financial design types of Slovenian sports NGOs. It can be concluded that their organisational processes and business operations differ in such a way that they could be differently affected by the uncertain economic situation due to the extended recession in Slovenia and Europe. Therefore, such a taxonomy could present an appropriate basis for the investigation of the true dimension of the impact of global economic crisis on sports NGOs in Slovenia as a small European sports economy, separately analysing the changes in finances of each financial design type of sports NGOs.

The empirical taxonomy revealed three financial design types of sports NGOs. On the basis of the characteristics of major items from their financial statements (see Table 1), the sports NGOs were identified as: 1) grassroots sports organisations; 2) semi-professional sports NGOs; 3) professional sports NGOs.

The biggest group of Slovenian sports NGOs is to be found in the first cluster, i.e. grassroots sport. This is a popular phrase covering the amateur participation in sport at lower levels, normally without any ambition towards higher achievement. The analysis of this study has shown that sports NGOs from the first cluster have distinctively lower total assets and total liabilities (€4,143), lower total revenues (€6,304) and total expenses (€6,360). Therefore, despite being by far the largest number of all sports NGOs (77.5%), these sports NGOs represent merely 13.9% of overall revenues of Slovenian sports NGOs (see Table 2). The structure of components of financial statements indicates a very simple functioning in these organisations. Assets and liabilities are mostly short-term, with the former being larger than the latter, keeping these organisations away from cash-flow difficulties. In comparison with the other two types of sports NGOs, they have the lowest *sales revenues* and the highest *public funds* and *other revenues* items in their structure of revenues. Good cash flow indicates that they create financial revenues by managing cash flow surplus; *membership fees* are also an important source

of revenue. In the structure of expenses, the comparison with the other two types of sports NGOs reveals a larger proportion of *costs of materials* and a very low proportion of *labour costs* (less than 2% of total expenses). These findings suggest that these are organisations that mainly carry out activities in order to satisfy the needs of their members. They are based exclusively on voluntary basis; consequently, they have very low *labour costs*. Since they are inside-oriented, their business requires very low amount of assets and revenues. Such sports NGOs were already identified by Jurak et al. (2009).

The second largest group (21.2% of all sports NGOs) includes semi-professional sports NGOs. This group resembles the first one only by the structure of revenues, whereas the volume of business is 10 times larger (€66,781 of total assets and liabilities and around €65,000 of total revenues and expenses); furthermore, its business is carried out with a larger proportion of *long-term assets*, its structure of expenses shows a particularly larger proportion of *labour costs* in comparison with grassroots sport. Sports organisations of this type face cash flow problems. Previous findings (Jurak, et al., 2009) suggest that this group differs from the first one in the rate of professionalisation in sports service processes. Sports organisations from this group have a unique position in the sports market since they are very outside-oriented to attract as many members as possible. Therefore, as for revenues, they have a high proportion of *membership fees* and *donations*, since their activities are less commercially attractive for sponsorship (booked in sales revenues). According to previous findings, these types of sports NGOs perform their activities with numerous human resources (mainly contractors and volunteers) only few of which are employed on a full-time basis (Jurak, et al., 2009), who fulfil different organisational tasks (sports training, management, maintenance of sports facilities, etc.). These organisations generate 39.2% of overall revenues of Slovenian sports NGOs. From the national perspective of sports services production, both groups (grassroots and semi-professional sports NGOs) are very significant since their activities represent the main impact on public health (they perform programmes for sportingly active participants) and provide strong value-added effects, since the outcome is reached with limited finances. An important source of these sports NGOs is volunteers, mostly their members. It is estimated that volunteer work represents 13.5% of economic strength outside the education system in Slovenia, totalling €81.2 million or 0.311% of gross domestic product (Jurak & Bednarik, 2006). Beside volunteer work, the members of grassroots sports organisations are also their main financiers. In the EU, on average two thirds of grassroots sports budgets are funded by the members themselves

through membership fees and other expenses, such as paid instruction; the share of public funding is 18% (Waelbroeck-Rocha et al., 2011). The results of this study show that in Slovenian grassroots sport the share of funding by members is lower (see the sum of membership fees and sales revenues; part of these revenues is also instruction paid by members), while the share of public financing is slightly higher. A total of 54% of grassroots sport in Slovenia have received public revenues (see Table 2), compared to the 61% reported by Waelbroeck-Rocha et al. (2011) indicating that in Slovenian grassroots sport public subsidies are allocated similarly to the EU average. Public funds are generally, according to individual groups of sports organisations, distributed very similarly to their total revenues (see Table 2).

Third, the smallest group, as for the number of NGOs in it, (1.4% of all sports NGOs), are professional sports NGOs. This is the most media-exposed part of sport, in the case of Slovenia with the biggest sports clubs and national sports federations from the most commercially interesting sports (major revenues from spectators and sponsors) or the competitively most successful national sports federations, which are mostly funded from public resources (see Table 2). Obviously, the organisations in this group provide a different kind of sports services, but they require a similar amount and a similar structure of finances. These organisations generate 46.8% of overall revenues of the Slovenian sports NGOs (see Table 2). They have enormous assets (on average more than €1.1 million) and revenues (on average more than €1.2 million) at their disposal compared to other sports NGOs. However, when compared internationally, they are not so big, due to the size of Slovenian market. When comparing the structure of revenues of semi-professional sports NGOs, they have a much bigger share of *sales revenues* and a smaller share of *membership fees* and *donations* in their total revenues. Compared to other sports NGOs, they dominate in *labour costs*, which confirms the previous findings that these sports NGOs are characterised by an above-average level of professional sports training and management personnel and a large number of volunteers who are predominately involved in sports events organisation (Jurak, et al., 2009). Substantial financial resources are needed in order to cover their expenses and fulfil their ambitions, especially in competitive sport. However, many of these organisations have financial problems, which can be identified by their current ratio (liquidity) and *society's funds* (solvency).

The current ratio, which is by far the worst in this type of sports NGOs, indicates whether a business can pay debts due within one year out of the *current assets*. There is no such thing as an ideal current ratio. Different businesses and industries work with different levels of cover. However, a

ratio of less than one is often a cause for concern, particularly if it persists for any length of time. Although not necessarily connected, many of these organisations are also faced with negative *society's funds*. Plainly speaking, the variable *society's funds* represents the result of previous retained earnings (profits and losses), as the foundation capital is more an exception than a rule. Negative *society's funds* does not necessarily mean insolvency, as the organisation could have loans or time repayment arrangements, thus protecting its lack of payment capability. However, it does represent a serious warning that the expenses are too large and that following the same path could lead to insolvency in the years to come. The data revealed that the group of professional sports NGOs includes the largest proportion of sports NGOs with negative *society's funds* (35%). The lowest amount on this item was €-6,835,804 in a sports NGO with the total annual revenues of €710,424, which clearly indicates that its functioning is a risk.

As expected, among all sports NGOs, these organisations are mostly focused on *sales revenues*; therefore, they should operate more like enterprises. In this group, the biggest Slovenian sports NGO by the total revenues can be found, the Football Association of Slovenia (€10.27 million), as well as the sports club with the highest revenues, Maribor Football Club (€6.4 million). The level of these revenues can be compared with the budget of football teams in the 3rd German league (Bundesliga, 2013); moreover, among EU-27 small economies, such as Slovenia, a few sports clubs have bigger budgets, such as APOEL Football Club from Cyprus, Levski Football Club from Bulgaria and Žalgiris Basketball Club from Lithuania. However, unlike the biggest Slovenian sports clubs, they have international sponsors, among the biggest is Gazprom, sponsoring Levski Football Club.

A sports society is an association of physical or legal subjects with common interests, based on a voluntary membership, non-profit making principles, independence in decision-making regarding its interests, fulfilling of tasks and goals. In some professional sports NGOs, questions regarding unprofitable operations have been asked, at the same time some organisations obviously overexploit the concept of negative *society's funds* for non-economical acting (e.g. using the society's funds inappropriately or unethically). Although it is legally possible to proclaim the bankruptcy of a sports society, and such a society could suggest limited compensation and solve its relationship with creditors, such cases are almost never seen in practice. Therefore, one could argue that this type of a society is not an appropriate subject for business of professional sports NGOs. However, the financial situation is much the same in sports organisations, which operate like enterprises.

Barajas and Rodríguez (2010) found that the average financial situation of the top two divisions of the Spanish football league, where there are many such enterprises, is worrying, if not critical. Debt is higher than the total amount of assets in 34.3% of the clubs. Even worse, debt exceeded the total revenues in 71.4% of the cases. Some 88.6% of the clubs have operational losses. Similar was found by Dimitropoulos (2010) regarding Greek football clubs. A general imbalance between revenues and costs was found in all large European football leagues (Deloitte, 2013), except in the German league (Bundesliga, 2013). Therefore, questions about the proper form or type of entity for professional sports organisations remain open. It seems that the problem is not in the legal form of operation but in the ethics of business and adequate regulation of the matter.

A major strength of this study is sports NGOs' population financial data, although some limitations indicate that care should be taken in generalising it to different socio-cultural environments, since in some countries the organisation of sport could be different and there could be some more financial design types of sports organisations with different patterns of business operations (within sports NGOs), as well as different types of entities (sports enterprises, university and college sports organisations, etc.). Furthermore, data from income statements of sports NGOs did not allow a more

analytical approach in some types of operating revenues (i.e. sponsorship) to gain an even more comprehensive insight into their business activities.

Affected by the global crisis, Slovenian GDP faced one of the deepest declines among the members of the Organisation for Economic Co-operation and Development (OECD, 2011), and it has not yet recovered. It can be assumed that the financial crisis also had an impact on Slovenian sports organisations. As some professional and semi-professional sports NGOs in Slovenia are highly leveraged with intense liquidity and solvency problems, they will probably face an increased danger of financial distress. Therefore, the authors believe that the true measure of economic turmoil will be seen over the next few years. The analyses of changes in finances by the financial design types of sports NGOs, identified in this study, could serve to aid in correctly understanding the impact of crisis and in acting properly in time to preserve the current organisation of sport in Slovenia, as it was found to be successful (Jurak, Bednarik, Kolenc, & Kolar, 2010). With some already mentioned limitations, such a research approach could also be suitable for other European sports economies, since the model of organisation and financing of sports organisations in Slovenia is very similar to the financing model used in the European Union (Bednarik, Petrović, & Šugman, 1998).

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FINANCIJSKA TAKSONOMIJA NEVLADINIH SPORTSKIH ORGANIZACIJA

Cilj je ovog rada bio klasificirati nevladine sportske organizacije prema njihovim financijskim podacima. Empirijska taksonomija, provedena Wardovom hijerarhijskom klusterskom tehnikom na varijablama dobivenim iz financijskih izvješća svih 6.130 nevladinih sportskih organizacija u Sloveniji, korištena je za klasterizaciju organizacija prema tri tipa financijskog dizajna: osnovne sportske organizacije, poluprofesionalne nevladine sportske organizacije i profesionalne sportske nevladine organizacije. Klasteri su varirali u veličini i strukturi financijskih stavki. Rezultati sugeriraju da su poslovi osnovnih sportskih organizacija vrlo jednostavni, dok su kompleksniji u poluprofesionalnim i profesionalnim sportskim nevladinim organizacijama, pa su te organizacije suočene s problemima dotoka novca te čak i solventnosti. Ukupni prosječni prihodi osnovnih sportskih organizacija (6.304€) iznose otprilike jednu desetinu prihoda poluprofesionalnih nevladinih sportskih organizacija, odnosno oni su 192 puta manji od prihoda profesionalnih sportskih nevlad-

nih organizacija. Kad je u pitanju struktura prihoda, profesionalne sportske nevladine organizacije imaju veću proporciju prihoda od prodaje te značajno manje prihode od članarina, donacija i ostalih kategorija prihoda. Polu-profesionalne sportske nevladine organizacije razlikuju se od osnovnih sportskih organizacija po neznatno većoj proporciji prihoda od prodaje i donacija. Kada je u pitanju struktura troškova, profesionalne sportske nevladine organizacije su imale 5,6 puta veći udio troškova rada u usporedbi s osnovnim sportskim organizacijama te 1,4 puta veći udio u usporedbi s poluprofesionalnim sportskim organizacijama. Takva taksonomija može predstavljati odgovarajuću osnovu za istraživanje stvarnih dimenzija utjecaja globalne ekonomske krize na sportske nevladine organizacije u malim europskim sportskim ekonomijama.

Ključne riječi: financiranje sportova, ekonomija sporta, klasifikacija, osnovni sport, profesionalni sport, sportski klub

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