

Financial Management of Sports Clubs in the Czech Republic

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ABSTRACT

The economic situation and general characteristics of sports clubs have not been much explored in the Czech Republic. At the same time, sport is an area into which we channel considerable attention and government funds. What is the economic situation of Czech sports clubs, and what do we know about them? The objective of the research was to map the environment in which Czech sports clubs operate and to identify their main economic characteristics based on a selected sample. The paper presents partial results from a 2011 survey conducted via questionnaire among sports clubs in the Czech Republic. The survey results are based on 430 responses from the total 1567 addressed sports clubs.

We establish that the economic situation of clubs is quite bad; however, it cannot be unequivocally proved that insufficient support from municipalities or public sources is to blame. The size of a municipality proved to be a significant variable in subsidies-related issues and in the quality of relations between clubs and municipalities. An analysis of the effects caused by the reduction of subsidies in comparison to requested sums would be significant. What seems good from a short-term perspective (more applicants are satisfied) will probably lead to an artificial inflation of requested sums in the long term, because entities will factor any expected subsidy reduction into their application.

Key words: Sports club; Financial management; Non-profit sector; Economy; Subsidies

JEL: G39, H79, L31

1 Introduction

Sport, whether participated in actively or passively, is a traditional part of life for most people. There is also a tradition of supporting sports from public sources, with the support often channelled to the sports organisations – clubs or associations – that participate in creating conditions for athletes rather than directly to individuals. If support for sport is to provide any benefits for athletes or, as the case may be, for society, the sport environment must be explored and mapped, emphasizing its economic characteristics. This need simply results from the fact that public sources are limited, i.e., from the necessity of gaining the maximum benefit from the existing sum of money.

The paper aims to map the environment in which sports clubs operate in the Czech Republic, and to identify the main economic characteristics of the sports clubs based on a selected sample. The subjects of the research are the economic situation of sports clubs and their relationship to municipalities and sports associations.

Data and information about sports clubs are relatively little known or available. Novotný (2011) focused especially on professional sports clubs; however, he primarily worked with existing data from case studies, even in the Czech Republic. Older papers use data dating back to 1996 (Novotný 2000) or more contemporary data on limited selected sample of sports

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clubs (Novotný et al. 2005). Hodaň and Hobza (2010) and Hobza and Rektořík (2006) mapped the institutional and theoretical aspects of the relationship between sports clubs and municipalities and the government. Hobza and Skoumal (2010) analysed grant-making policy using the principles of programme financing.

Some intermediate data are available for analysis, e.g. in bachelor theses and dissertations focused on analyses of sports clubs or associations, usually as regards their bookkeeping, marketing, or management.

If we want to assess the system of support of sport, to examine the efficiency of subsidy provision, or to evaluate or change the role of the state or municipalities in any manner whatsoever, it is essential to explore sports clubs as partners to the public sector. The research represents the first step towards mapping the environment.

Methodology

The main source of data is a survey conducted via a questionnaire distributed among sports clubs. The survey was conducted in the spring of 2011; the questionnaire was sent to 1567 sports clubs registered with the Czech Sports Association (Český svaz tělesné výchovy a sportu, ČSTV). The rate of return was 28 %; 436 completed responses were obtained. After duplicates were eliminated, there remained a sample of 430 respondents. All the answers were anonymous.

The selected group is neither a representative nor random selection. Approximately 60 % of the sports organisations that are members of a sports association registered with ČSTV were addressed. ČSTV represents 72 sports associations, and approximately 70 % of all Czech athletes are registered with ČSTV. We estimate that the responses obtained represent approximately 58,000 athletes registered in sports clubs. The classification of respondents in a breakdown by individual sport is presented in Annex 1.

The following research questions were used for the purposes of the research: (1) What are the basic characteristics of sports clubs? (2) How do sports clubs manage their finances?

To answer the questions, the following 11 questions from the questionnaire were analysed: (1) What is the legal form of your club? (2) What line of sport is your club engaged in? (3) How many members does your club have? (4) What is the size of the municipality where your club operates? (5) Do you conduct your activities in your own facility or a rented facility? (6) Did you apply to your municipality for a subsidy in 2009 or 2010? (7) Was your last application for subsidies successful? (8) What have your membership fees been over the last 3 years? (9) How have your membership fees changed over the last 3 years? (10) How many hours a week do you practice? (11) How would you describe the financial management of your organisation in the last year?

Respondents could select only one of the provided answers. Other intermediate outcomes of the survey have been published (Pavlík 2012, 2013).

2 Outcomes and Discussion

2.1 Basic Characteristics

The first characteristic surveyed in the questionnaire was the legal form of the sports clubs. The answers indicated that it is difficult for some organisations to identify their legal form or that they do not know what their legal form is; sometimes sports clubs seemed to think that “non-profit organisation” was a legal form. Non-profit organisation is general term for four

kinds of non-profit legal form (The most frequent non-profit legal form was civic association in the case of 93,3 % respondents) . Of the 430 respondents, 94.7 % had a non-profit legal form and 3.3 % were a business company or sole trader. Responses provided by 2 % of respondents did not enable clear identification of their legal form. Two other characteristics examined in the questionnaire were the number of members and the size of the municipality (Table 1) where the sports club operates. The question was intentionally worded to determine the club's operation site rather than the location of its registered office. Depending on their subsidy policy, municipalities usually make decisions based on whether a club actually operates in the municipality.

Table 1: The relationship between the size of a municipality and the number of sports club members (in %)

| Municipality size/ number of members | Up to 5 thousand inhabitants | 5-10 thousand inhabitants | 10-50 thousand inhabitants | 50-150 thousand inhabitants | 150-400 thousand inhabitants | More than 400 thousand inhabitants |
|---|------------------------------------|---------------------------------|----------------------------------|-----------------------------------|------------------------------------|---|
| 1-30 | 24.0 | 32.6 | 15.9 | 10.8 | 29.0 | 14.8 |
| 31-70 | 40.0 | 26.1 | 29.0 | 26.5 | 35.5 | 18.5 |
| 71-150 | 20.0 | 17.4 | 25.4 | 27.7 | 16.1 | 24.7 |
| 151-300 | 14.0 | 21.7 | 20.3 | 24.1 | 6.5 | 21.0 |
| 301-500 | 2.0 | 0.0 | 4.3 | 2.4 | 6.5 | 13.6 |
| 501 and more | 0.0 | 2.2 | 5.1 | 8.4 | 6.5 | 7.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: author

There may be no correlation between the number of members and the municipality size. The number of members will depend on the type of sport and the overall activity.

Other findings from the survey are of an economic character. The first of these is whether a club conducts its activities at its own facility (20.9 %) or rents the premises (58.8 %) or use both possibilities (20.2 %).

Demands for subsidies often depend on whether the sports club owns or rents the premises it uses. Two types of argument may be presented:

- Those operating their activities in their own facility have an advantage over others who are forced to pay market rent;
- Although facility owners (typically Sokol clubs) have their own premises, they need to maintain and improve their property, and this requires support, taking into account their mission and character.

The outcomes, divided according to this criterion, are set forth in Table 2. This issue will be addressed later, including in terms of subsidies that sports clubs obtain from municipalities. The difference between the clubs that operate their activities at their own facility and the clubs that rent facilities is only 3.6 % in the case a subsidy was provided in the amount requested by a club. The opposite trend is in the cases where a subsidy was reduced – clubs without own facility are more successful. Hence, no significant preference in subsidy provision was given to facility owners over clubs renting their facilities. However, it is apparent that the clubs that own their own facilities have significantly higher activity in obtaining subsidies.

Table 2: The relationship between the success rate of subsidy applications and owning/renting a facility (in %)

| The success rate of subsidy applications / owning/renting a facility (in %) | Subsidy obtained | Subsidy obtained, but its amount is lower than required | No subsidy obtained | No subsidy application submitted | <i>Total</i> |
|---|------------------|---|---------------------|----------------------------------|---------------|
| Own facilities/premises | 22.22 | 54.44 | 14.44 | 8.89 | <i>100.00</i> |
| Under a lease | 18.58 | 58.10 | 6.32 | 17.00 | <i>100.00</i> |
| Both possibilities | 17.24 | 64.37 | 3.45 | 14.94 | <i>100.00</i> |

Source: author

2.2 Membership fees

Another interesting finding from the survey is the amount of membership fees. For most sports clubs, membership fees represent the primary source of income; their amount will depend on the following characteristics:

- The number of trainings offered per week – the rental and operational costs;
- Expense of the respective sport and the level of club involvement (e.g., whether the club provides aids, pays starting fees at competitions);
- The approach to “profitability”; i.e., whether the club sets its membership fees to cover its costs, pay coaches, or generate profits/reserves;
- The social status of sport – typically, the difference between soccer and ice hockey; some sports are traditionally perceived as less expensive and higher membership fees would probably discourage/exclude a high number of members.

The main parameter influencing membership fees may be the number of training units, because rental/operational costs are the main expenditure of most sports clubs. Concurrently, we expect that a club with a higher number of members will have more training units per week (correlation 0.544). The membership fees grow in proportion to the number of training hours to the point where clubs provide more than 100 training hours per week.

Two more aspects of membership fees are interesting: changes in membership fees over time, and the relation between changing membership fees (Table 3) and the rate of success in obtaining a subsidy. If a club obtains a subsidy, we theoretically expect that a positive effects (externalities) is produced (a subsidy is expected to support a higher level of production of positive effects). Then (to put it in a very simplified way) an obtained subsidy should generate one or more of the following changes (all other things being equal): decreased membership fees; increased number of training units; and increased standard of services provided to members.

The research indicates that 57 % of respondents have increased their membership fees over the last three years, 42 % of respondents have not changed them, and 1% of respondents have decreased their membership fees.

Table 3 shows the relation between changes in membership fees and obtaining subsidies. It is clear from the responses that the majority of clubs increase their membership fees even when they obtain a subsidy, albeit a smaller subsidy than requested. The percentage of clubs that do

not increase their membership fees is higher among those that obtain a subsidy in the requested amount. However, the total outcomes show that changes in membership fees are not dependent on the rate of success of applications for subsidies. More detailed data would have to be analysed to obtain a complete spectrum of the impacts of subsidies on key club parameters. The purpose of subsidy granting is also important for evaluating the effects. The nature of the subsidy, i.e., an operational subsidy (e.g., a contribution towards rent) or a subsidy for an event (e.g., a sports day for the general public), should also have an effect.

Table 3: Subsidy application success rates and changes in membership fees (in %)

| Subsidy application success rates and changes in membership fees (in %) | Subsidy obtained | Subsidy obtained, but its amount is lower than required | No subsidy obtained | No subsidy application submitted |
|---|------------------|---|---------------------|----------------------------------|
| The membership fee has not changed | 45.12 | 38.10 | 46.88 | 53.13 |
| Membership fees have increased | 54.88 | 59.92 | 53.13 | 46.88 |
| Membership fees have decreased | 0.00 | 1.98 | 0.00 | 0.00 |
| <i>Total</i> | <i>100.00</i> | <i>100.00</i> | <i>100.00</i> | <i>100.00</i> |

Source: author

2.3 Profit and Loss

Table 4 shows profit/loss. This factor was intentionally studied to find how a club's financial management was influenced by a subsidy when it was obtained. The number of loss-making clubs is surprising as is the low number of profit-making clubs unexpected.

The established outcomes may be interpreted in at least the following ways:

- Clubs depend heavily on subsidies;
- Clubs are not able to manage their finances well (or to plan their incomes and expenses adequately);
- Profit/loss is influenced by the efforts of clubs to have a non-profit image; their financial management (or responses by respondents) is adjusted to give the impression that a club will not survive without a subsidy;
- Clubs are on the borderline of their existence (through no fault of their own) because they cannot increase their membership fees, and at the same time their operational costs grow.

Table 4: Profit/loss in 2010 (in %)

| | |
|--|-------|
| Loss-making (with an obtained subsidy) | 20,93 |
| Loss-making (with no subsidy) | 17,67 |
| Balanced (with a subsidy) | 50,23 |
| Balanced (with no subsidy) | 1,16 |
| Incomes exceeded expenditures (the received subsidy had no influence on profit/loss) | 3,26 |
| Incomes exceeded expenditures (the received subsidy had a positive influence on profit/loss) | 5,12 |
| Incomes exceeded expenditures (with no subsidy) | 1,63 |

Source: author

Table 5 presents a closer look at a club's financial management according to the club's size; regardless of a club's size, the same trends are apparent (except for the smallest clubs). The

percentage of loss making clubs with subsidies (and despite subsidies) always exceeds the percentage of loss-making clubs without subsidies. This finding leads to the necessity of further research to answer the question: are clubs badly managed financially, or are (public) sources scarce?

In the author's opinion, the answer considerably depends on the level of altruism that a club holds itself to. However, it is not easy to identify altruism as such in a survey conducted via questionnaire. It is difficult to differentiate which clubs are not to blame for their economic situation and to concurrently answer the normative question: Is it not acceptable for the clubs to perish if they are unable to support themselves? The financial management of most sports clubs is balanced regardless of the number of their members (Table 6); however, the size of a club influences the growing percentage of those managing their finances with a surplus of revenues over expenditures. It is then true for clubs managing their finances without subsidies that the share of loss-making clubs decreases proportionately to the size of the clubs. Indirectly, clubs with fewer than 30 members may be considered to be of a critical size if they do not feature a sport with extraordinarily low costs.

Table 5: The relation between a club's financial management and its size (in %)

| Profit/loss in the breakdown by club size (in %) | Loss-making (with a subsidy) | Loss-making (without a subsidy) | Balanced (with a subsidy) | Balanced (without a subsidy) | Revenue exceeded expenditure (a subsidy had no influence on profit/loss) | Revenue exceeded expenditure (a subsidy had a positive influence on profit/loss) | Revenue exceeded expenditure (without a subsidy) |
|--|------------------------------|---------------------------------|---------------------------|------------------------------|--|--|--|
| 1-30 | 12.66 | 40.51 | 37.97 | 0.00 | 1.27 | 5.06 | 2.53 |
| 31-70 | 20.00 | 16.67 | 52.50 | 1.67 | 3.33 | 4.17 | 1.67 |
| 71-150 | 22.77 | 11.88 | 55.45 | 1.98 | 2.97 | 3.96 | 0.99 |
| 151-300 | 25.00 | 10.71 | 52.38 | 0.00 | 2.38 | 7.14 | 2.38 |
| 301-500 | 18.18 | 9.09 | 54.55 | 4.55 | 9.09 | 4.55 | 0.00 |
| 501 and more | 33.33 | 4.17 | 45.83 | 0.00 | 8.33 | 8.33 | 0.00 |

Source: author

2.4 Subsidies and Financial Management

The outcomes of the survey show that most clubs apply for subsidies repeatedly (76% both years 2010 and 2011; 6.3% only one year. Nevertheless, about 17% of clubs did not apply for any subsidy, making it possible to interpret the outcomes shown in the table in several ways. Causes may vary:

- These clubs do not need money from public sources;
- These clubs need money from public sources but not to such an extent that they would go through the process of applying for a subsidy and rendering accounts for it (this is indicated by the outcomes – see Table 8, where the number of entities that do not apply for a subsidy grows proportionately to the growing size of a municipality and probably growing administrative burden);
- These clubs need money but are convinced they would not manage to obtain a subsidy.

The survey does not provide an unequivocal cause. We know that 18% of clubs are loss-making without a subsidy, nevertheless the total percentage of entities managing their finances without a subsidy amounts to 21%. The differences in respondents' answers may be

due to the fact that subsidies were obtained from higher territorial self-governing units, or respondents might have misinterpreted the question.

From the point of view of the structure of applicants, it is interesting that the highest percentages of the sports clubs that do not apply for subsidies are in the smallest municipalities and in big cities (Table 8). This may be because the administrative requirements placed on applicants in bigger cities are much more complicated than in smaller municipalities. As regards the smallest municipalities, the higher number of the sports clubs not applying for subsidies can be explained in two ways:

- A municipality distributes few or no funds, which is not attractive for a club;
- There are strong interest groups in a smaller municipality, and their applications are given preference to the exclusion of the others; this is known and therefore the other sports clubs do not apply for subsidies.

On the level of all municipalities, save for the smallest ones, the trend to allocate a subsidy in a lower amount than that requested by an applicant (Table 6) has been increasing. This finding is a cause for thought. Apparently, municipalities have been opting to satisfy a larger number of applicants, even at the cost of a lower allocated sum for each.

The effects of such behaviour must be evaluated in the short term and long term:

- Short-term perspective:
 - By supporting a larger number of entities, a municipality will show friendly face ;
 - Reductions in subsidies may have a negative influence on the clubs that do not expect them;
 - The unexpected reduction of a subsidy may endanger the positive effect of a subsidy (project).
- Long-term perspective:
 - By reducing their subsidies systematically, municipalities create the risk of inflated requests: applicants will anticipate reductions and will adjust the sums they apply for accordingly;
 - The inflation of requests for subsidies will lead to an impression that sport is under-funded or that the situation is critical;
 - The pressure on public sources will increase.

It seems to be true that where the number of sports clubs not applying for subsidies is the highest, the percentage of sports clubs that will receive the sum they apply for is concurrently the highest. This may be explained in two ways, depending on the normative basis:

- If some sports clubs do not submit applications, the remaining sources will be divided among a lower number of applicants, hence it is possible to fully meet their requirements; however, this argument may not be considered to be true for large municipalities; theoretically, it is true for municipalities with up to 5 thousand inhabitants. A supporting argument may be found in the overviews of applicants for subsidies in large cities and an overview of granted subsidies.
- On the grounds of the strategic attitude of municipalities that do not apply blanket or proportionate reductions in approved applications.

Table 6: The subsidy application success rate related to the size of a municipality (in %)

| The subsidy application success rate related to the size of a municipality (in %) | Subsidy obtained | Subsidy obtained, but its amount is lower than required | No subsidy obtained | No subsidy application submitted for the last two years |
|---|------------------|---|---------------------|---|
| Up to 5 thousand inhabitants | 36.00 | 32.00 | 12.00 | 20.00 |
| 5-10 thousand inhabitants | 34.78 | 56.52 | 2.17 | 6.52 |
| 10-50 thousand inhabitants | 16.55 | 69.78 | 2.88 | 10.79 |
| 50-150 thousand inhabitants | 15.66 | 71.08 | 7.23 | 6.02 |
| 150-400 thousand inhabitants | 6.45 | 54.84 | 6.45 | 32.26 |
| Over 400 thousand inhabitants | 12.35 | 45.68 | 16.05 | 25.93 |

Source: author

3 Conclusion

The survey conducted via questionnaire generated quite interesting results. It is one of the few probes into the situation of sports clubs. Sports clubs are the bases for amateur and professional sport, traditionally an integral part of the non-profit sector and partners for municipal, regional, and national authorities.

We have established that the economic situation of clubs is quite bad; however, it cannot be unequivocally proved that insufficient support from municipal or public sources is to be blamed. The typical average sports club is a civic association with 31-70 members, operating in rented premises. This type of a club usually has balanced financial management, although due to an obtained subsidy.

As regards the issues related to subsidies, the size of a municipality has a significant influence. The quality of relations between clubs and municipalities is influenced by the number of inhabitants. In chartered cities, it seems useful to further analyse relations between the city district where a club operates and the metropolitan authority of a city (in larger cities such as Brno, for example, two levels of approach to subsidies are typically available to clubs).

The finding that most clubs that obtain a municipal subsidy receive a lower sum than they requested also seems to be important. This finding is not surprising; however, it leads to a theoretical question about the effects of such a practice. What appears to be good from a short-term perspective (more applicants are satisfied will probably lead to the inflation of requested sums because applicants will factor the anticipated subsidy reductions in their applications. From a long-term perspective, there will be pressure on sources, including the situation in which municipalities apply the principle of a subsidy supplementary to other sources.

More than CZK 10.7 billion are allocated to sport on the municipal and regional levels (ČSÚ 2011); such a volume of resources has the potential to generate benefits for the society. Before we evaluate the sources, we should answer the following questions:

- Why do we support sport and what effects do we expect from this support?

- (in connection with the previous question) How can the desirable effects be maximized with a limited amount of resources?

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