

## **Sectoral Analysis of Polish Sports Clubs with the Public Benefit Organization Status**

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### **Abstract:**

Despite the fact that a characteristic feature of sports clubs with the public benefit organization status is running a non-profit-oriented activity, but with a social effect, a stable financial situation is an important element in the assessment of their proper functioning. This specific group of public benefit organizations focused on supporting and disseminating physical culture creates a specific sector for which a sectoral analysis can be conducted. Sector analysis is one of the tools of economic analysis that allows you to assess and forecast the activities of an entity and its environment from the perspective of the survival and development opportunities in which the organization operates or intends to operate. On the other hand, the sectoral analysis based on statistical parameters of financial indicators is an analytical tool for both donors and sports clubs themselves and allows, in particular, to assess the financial situation. The subject of the study is a sectoral analysis of Polish sports clubs with the public benefit organization status in 2018-2019. The aim is to provide a general assessment of their financial situation based on the trend in profitability, financial liquidity and overall debt. For the purposes of this paper, two research theses were formulated: 1. The financial situation of the sector of sports clubs with the public benefit organization status is improving in the analyzed period 2018-2019. 2. The increase in the share of private sources in the total revenue sources improves the overall financial situation of the sector of sports clubs with the public benefit organization status. Both research theses have been positively verified. It follows that the role of the sports clubs sector with the public benefit status is growing, as is the demand for this type of activity in society, and thanks to sectoral analysis, potential donors can analyze the financial situation of sports clubs and their position in the sector.

**Key Words:** sports clubs, public benefit organizations, sectoral analysis, profitability, financial liquidity

### **Introduction**

Sports clubs with the public benefit organization status within all public benefit organizations form a specific sector in which units are in particular involved in supporting and disseminating physical culture. The comparison of such sports clubs with the public benefit organization status within the sector allows not only to compare individual units with each other, but also allows for the analysis and evaluation of the sector in the industry, because the sector is a part of the industry that classifies units, inter alia, in terms of services with a similar purpose, provided in the same geographic region. There are not many items in the literature on sectoral analysis, and if they do appear, the aspects related to the sectoral analysis are described in the framework of strategic management or financial analysis. According to Borowski (2014), the sectoral analysis is part of the strategic analysis, which is used to assess the competitiveness of the services provided and resources. On the other hand, Gierszewska and Romanowska (2017) define the sectoral analysis as one of the tools for assessing and forecasting the activities of an entity and its environment from the perspective of survival and development opportunities. Often, according to Gruszecki (2002), the activity of an individual is determined by various goals whose hierarchy and structure influence his position.

In public benefit organizations it may be, inter alia, the maximization of sales indicated by Baumol (1959), the maximization of growth by Marris (1963), but above all, the activity of such entities should be aimed at maximizing the social effect. Until now, only a financial analysis based on selected financial indicators for sports clubs dealing with football was conducted for Polish sports clubs with the status of public benefit organizations. Wszyński (2015) analyzed Polish football clubs with the public benefit organization status that played matches in the 2013/2014 season in terms of profitability, financial liquidity and debt, which contributed to the overall financial situation of these clubs, which was assessed by the author of the study as bad and this was influenced by the dependence of Polish football clubs with the public benefit organization status on public funds. Research conducted three years later by Kościółek (2017) showed that the financial situation of Polish football clubs with the public benefit organization status improved only in the area of financial liquidity. As part of a public benefit organization, Dyczkowski (2015) conducted research in the field of assessing the usefulness of performance measures in these units in ensuring, inter alia, transparency of their financial situation. In general, the problem of measuring achievements in public benefit organizations, according to Ryan, Mack, Tooley and

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Irvine (2014), results from the association of social effects with financial results. Buteau, Chaffin and Gopal (2014) indicated that public benefit organizations characterized by high social recognition are valued, but the measurement of this recognition is very difficult. Therefore, the study in question showed significant limitations in terms of the study itself and the analysis of the results, which, according to the author, was consistent with the results of Waniak-Michalak and Zarzycka (2013) in terms of the perception of public benefit organizations based on financial indicators. According to Goldmann and Zawadzki (2020), the sectoral analysis based on financial indicators is the best reflection of the financial situation of entities in Poland. It allows you to identify and assess the main factors influencing the conduct of business in the industry in which a given entity operates or plans to operate.

According to Kuczyńska-Cesarz (2013), a system of synthetic evaluation of the financial result can also be used to assess the activities of public benefit organizations, thanks to which it is possible to determine the nature of the organization's development and to evaluate its activities.

The sector of sports clubs with the public benefit organization status, dealing in particular with the support and dissemination of physical culture gathers units offering various types of sport and it is worth analyzing them in terms of their financial situation, depending more or less on the level of public funding. The above indicates the existence of a research problem in the assessment of the financial situation of not only football clubs with the public benefit organization status, but the entire sector of sports clubs with the public benefit organization status.

### Material & methods

The following research methods were used in the paper: method of critical analysis of literature, method of analysis and synthesis of selected elements of financial reporting, statistical methods. The subject of the study were the annual financial reports of Polish sports clubs with the public benefit organization status for 2018 and 2019. The annual report includes: a financial report with additional information and a substantive report. The source of the reports was a publicly available database of reports of public benefit organizations. It is run by the National Institute of Freedom - Center for Civil Society Development. Therefore, in the period January-February 2021, financial reports from two periods for 550 sports clubs with the public benefit organization status were analyzed, where:

- in 2018: 44 sports clubs which prepared a financial statement in accordance with the template contained in Annex 1 to the Accounting Act, and 506 sports clubs that prepared a report based on Annex 6, dedicated to non-governmental organizations;
- in 2019: 37 sports clubs that prepared a financial report in accordance with the template provided in Annex 1 to the Accounting Act, and 513 sports clubs that prepared a report based on Annex 6, dedicated to non-governmental organizations.

The annual report includes: a financial report with additional information and a substantive report. The study used financial statements, including: balance sheet and profit and loss account.

12 financial ratios were calculated for sports clubs that prepared a financial statement in accordance with the template included in Annex 1 to the Accounting Act. For clubs that have prepared a report based on Annex 6 to the Accounting Act, 15 financial ratios were calculated due to a different model of the profit and loss account. As a result, after the preliminary analysis of the results and the information that every year more and more sports clubs prepare financial statements based on Annex 6 to the Accounting Act dedicated to non-governmental organizations, the sector analysis was carried out only for sports clubs that prepared a report in accordance with Annex 6 to the Accounting Act based on selected 9 out of 15 financial indicators:

- 5 profitability ratios (profitability ratio for statutory activities, profitability ratio for business activities, net sales profitability ratio, assets operating profitability ratio and equity return ratio - ROE);
  - 3 liquidity ratios (current liquidity ratio, quick liquidity ratio, liquidity ratio at the level of short-term investments);
- and the overall debt ratio.

Revenues and sources of these revenues were determined for all the surveyed sports clubs. The main objective of the study was to provide a general assessment of the financial situation of sports clubs with the public benefit organization status, based on the trend in the development of profitability, financial liquidity and overall debt.

For the purposes of this paper, two research theses were formulated:

1. The financial situation of the sector of sports clubs with the public benefit organization status is improving in the analyzed period 2018-2019.
2. The increase in the share of private sources in the total revenue sources improves the overall financial situation of the sector of sports clubs with the public benefit organization status.

In the initial sector analysis, various measures of dispersion were used to present the results, however, as a result, due to the specificity of the activities of sports clubs with the status of a public benefit organization and the related very large range of the obtained results between the minimum and maximum value of the indicator in the set, the following parameters were adopted: statistical in terms of presentation:

- A median that divides the set of indicators into two equal parts, that is, 50% of the indicators are above the median and 50% below;

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- Upper quartile = Median + Top box (this is the width of the interval in which 25% of indicators are above the middle value of the set);
  - Lower quartile = Median + Bottom box (this is the width of the interval in which 25% of indicators are below the middle value of the set);

## Results

According to the Accounting Act, public benefit organizations in Poland may choose the formula according to which they prepare their financial statements. The analysis of the choice of the formula by public benefit organizations showed that the vast majority of the analyzed sports clubs prepare financial statements based on Annex 6 to the Accounting Act, dedicated to non-governmental organizations and, as the analysis shows, there are more and more such units each year. Pursuant to the Accounting Act (Accounting Act, 1994), sports clubs are also obliged to report paid and unpaid public benefit activities and economic activities in the report. The unification of reporting obligations from 2017 in Poland in the case of their application by public benefit organizations, according to Zieniuk (2018), may, *inter alia*, make it possible to compare the reports of organizations running and not conducting economic activity.

The analysis of the share of the type of individual revenues in the total revenues of Sports clubs with the public benefit organization status showed that most of the revenues of sports clubs are revenues from unpaid public benefit activities, then other revenues and revenues from paid public benefit activities, as presented in Table 1. Revenues from economic activity and financial revenues have the smallest share in the total revenues of sports clubs with the public benefit organization status. Comparing 2019 to 2018, there are no significant changes in the share of individual revenues in total revenues for all sports clubs, which indicates stability in this area. A detailed analysis showed that for 1/3 of sports clubs, revenues from unpaid public benefit activities constitute 100% and do not have other types of revenues. Only for sports clubs preparing financial statements based on Annex 1 to the Accounting Act, revenues from gratuitous public benefit activities do not constitute the majority of total revenues, although they grow from year to year and this is probably due to the fact that such sports clubs constitute only 8 % in 2018, and in 2019 -7% of all analyzed sports clubs. According to Carrol and Stater (2008), such diversification of revenues from various types of activity has a positive impact on the financial security of the organization.

Table 1. Types of revenues in total revenues for sports clubs with the public benefit organization status

Specification	Revenues from unpaid public benefit activities	Revenues from paid public benefit activities	Business income	Financial income	Other income
Sports clubs preparing financial statements according to Annex 1 to the Accounting Act					
2018 (44)	36.47%	7.36%	17.59%	0.27%	38.32%
2019 (37)	41.46%	9.64%	14.70%	0.05%	34.16%
Sports clubs preparing financial statements according to Annex 6 to the Accounting Act					
2018 (506)	63.59%	11.96%	5.13%	1.75%	17.57%
2019 (513)	62.82%	12.66%	4.64%	1.51%	18.37%
Total sports clubs with the public benefit organization status					
2018 (550)	61.46%	11.59%	6.11%	1.63%	19.20%
2019 (550)	61.38%	12.45%	5.32%	1.41%	19.44%

Source: own elaboration based on financial statements.

Table 2. shows that public sources have the largest share in the total revenue sources and amount to approximately 40% in both analyzed periods. Private sources for all sports clubs with the public benefit organization status increase from period to period and constitute the second largest source of revenues in 2019. In a study conducted by Wyszzyński (2015), private funds accounted for a small part of the total funds of Polish football clubs with the status of public benefit organization (approximately 15%).

Both these results and the study carried out later by Kościółek (2017) gave information that the situation of this sector will improve in the future if there is an increase in private funds for investing in this sector. As the analysis of 2018 and 2019 shows, private funds for all sports clubs with the public benefit organization status accounted for almost 26% in 2018, and in 2019 they increased to almost 29%, which should indicate an improvement in the financial situation of this sector.

Table 2. Types of revenue sources in total revenue sources for sports clubs with the public benefit organization status

Specification	Revenue from 1% of personal income tax	Public Sources	Private sources	Other sources
Sports clubs preparing financial statements according to Annex 1 to the Accounting Act				
2018 (44)	2.48%	34.86%	31.01%	31.65%
2019 (37)	4.12%	31.92%	41.63%	22.33%
Sports clubs preparing financial statements according to Annex 6 to the Accounting Act				
2018 (506)	6.08%	40.05%	25.29%	28.58%
2019 (513)	5.97%	41.58%	27.75%	24.70%
Total sports clubs with the public benefit organization status				
2018 (550)	5.79%	39.64%	25.74%	28.82%
2019 (550)	5.85%	40.92%	28.69%	24.54%

Source: own elaboration based on financial statements.

Table 3 shows that the industry trend at the median level for statutory profitability and net sales profitability is growing, which positively reflects the financial situation of the entire sector. This is also confirmed by the increase in total revenues of the analyzed sports clubs by almost 17%. On the other hand, low values of these indicators confirm the specificity of public benefit organizations.

Profitability for economic activity in the sector is high in both analyzed periods, although the industry trend at the median level is decreasing, which may be the result of decreasing revenues from the economic activity of sports clubs. High profitability values for business activity in relation to the profitability of statutory activities and net sales profitability prove that the revenues from the economic activity of sports clubs with the status of public benefit organizations are characterized by high margins.

Table 3. Statistical parameters for profitability indicators of sports clubs with the public benefit organization status that have drawn up a report in accordance with Annex 6 to the Accounting Act (%)

Specification		Profitability ratios				
		Profitability of statutory activities	Profitability of business activities	Net sales profitability	Operating profitability of assets	Profitability of equity
2018	Upper quartile	9.52%	100.00	6.23	52.25	79.91
	<b>Median</b>	<b>1.16</b>	<b>86.49</b>	<b>0.96</b>	<b>6.04</b>	<b>14.24</b>
	Lower quartile	-5.70	35.69	-2.42	-32.23	-13.49
2019	Upper quartile	8.28	100.00	6.35	54.73	84.29
	<b>Median</b>	<b>1.31</b>	<b>80.06</b>	<b>1.17</b>	<b>4.62</b>	<b>16.54</b>
	Lower quartile	-5.76	28.13	-2.16	-31.06	-18.24

Source: own elaboration based on financial statements.

For the operating profitability of assets, the industry trend at the median level is decreasing, which is probably the result of an increase in the wealth of sports clubs. The higher assets of sports clubs probably increase their attractiveness for current and potential members. On the other hand, for ROE, the industry trend at the median level is growing, which is an incentive for investors. This was reflected in the increase in the share of private sources in total revenue sources.

The industry trend at the median level for all analyzed financial liquidity ratios is growing, as shown in Table 4. The analysis of the value of individual financial liquidity ratios at the median level shows that sports clubs with the public benefit organization status are characterized by high cash, stable receivables and low inventory.

Table 4. Statistical parameters for the financial liquidity ratios and for the overall debt ratio of sports clubs with the public benefit organization status that have prepared financial statements in accordance with Annex 6 to the Accounting Act

Specification		Financial Liquidity			Overall debt ratio
		Current liquidity	Quick liquidity	Liquidity at the level of short-term investments	
2018	Upper quartile	15.32	12.80	10.94	0.93
	<b>Median</b>	<b>2.84</b>	<b>2.64</b>	<b>1.78</b>	<b>0.30</b>
	Lower quartile	0.74	0.59	0.29	0.05
2019	Upper quartile	11.40	9.74	7.23	0.93
	<b>Median</b>	<b>3.25</b>	<b>2.86</b>	<b>2.01</b>	<b>0.25</b>
	Lower quartile	0.74	0.66	0.30	0.04

Source: own elaboration based on financial statements.

The assessment of the financial situation of the sector of sports clubs with the public benefit organization status was supplemented with an analysis of the overall debt, for which the industry trend at the median level is decreasing, which is favorable, and the middle value of the sample drops from 30% in 2018 to 25% in 2019 (Table 4). The median of the overall debt in the Wyszynski (2015) study was 99%, which was the effect of high net losses in previous years, which led to negative equity in 1/3 of sports clubs. In 2017, according to Kościółek (2017), overall debt fell to 45%, although the number of sports clubs that recorded negative equity has not changed.

Due to the fact that in previous years research, it was suggested that the increase in private funds should contribute to the improvement of the financial situation of sports clubs, sports clubs that had private sources were analyzed separately and these results were further narrowed down to sports clubs whose share of private sources in total, it is above 50%. In 2018, there were 80.83% of all sports clubs with private sources, and 82.84% in 2019, while sports clubs whose share of private sources in total revenues is above 50% in 2018 was 17.19%, and in 2019 19.88%.

The analysis of all sports clubs that show private sources did not show significant differences, while the analysis of sports clubs whose share of private sources in total revenue sources exceeds 50% showed that the results at the median level were in most of the analyzed profitability and financial liquidity ratios in both years higher, and lower in general debt ratios.

In addition, the basic results were compared with the results of sports clubs with the public benefit organization status, whose share of revenues from unpaid public benefit activities in total revenues exceeds 50%, in order to obtain information whether the majority of revenues obtained from unpaid public benefit activities will have a negative or positive impact on the financial situation of sports clubs. There were 64.42% of such sports clubs in 2018, and 65.69% in 2019. It turned out that the results at the median level were higher in all the analyzed profitability and financial liquidity ratios in both years, and lower in the general debt ratios. This shows that the majority of revenues from unpaid public benefit activities in total revenues should have a positive impact on the financial situation of a sports club.

## Discussion

The homogeneity resulting from the vast majority of reports drawn up by Polish sports clubs with the status of a public benefit organization identified in the study on the basis of Annex 6 to the Accounting Act, which is dedicated to non-governmental organizations, allowed for the calculation of selected financial indicators and their statistical parameterization for sectoral analysis. It is worth adding that in 2019, compared to 2018, the number of sports clubs with the status of public benefit organizations, which prepare a report based on Annex 6 to the Accounting Act, increased. The conducted sector analysis based on the statistical parameters of profitability and financial liquidity ratios as well as the overall debt of Polish sports clubs with the status of public benefit organizations preparing financial statements based on Annex 6 to the Accounting Act in 2018-2019 showed an improvement in the overall financial situation of the entire sector, which confirms the first hypothesis. It follows that the role of this sector in the economy is increasing and the demand for this type of activity in society is growing, and thanks to sectoral analysis, potential donors can analyze the financial situation of clubs and their position in the sector.

Despite the fact that public benefit organizations may generate revenues from various sources, according to the research conducted, revenues from unpaid public benefit activities in all sports clubs account for almost 2/3 of all revenues obtained, which may naturally make public benefit organizations dependent on the

expectations of their functioning by state authorities. This is confirmed by the position taken on this topic by other researchers such as Horch (1994) and Wicker, Longley and Breuer (2015). The results obtained in the current study showed that the share of revenues from unpaid public benefit activities in total revenues above 50% has a positive effect on their overall financial situation, which should be interpreted favorably and perceived a more positive than negative influence of state authorities on the activities of public benefit organizations.

In general, dependence on public sources, according to Wszyński (2015), was identified as a problem in terms of the negative impact on the overall financial situation of sports clubs, where only about 15% of financing sports clubs with the status of public benefit organizations in 2014 were private sources, and the financial situation was to improve along with the growing interest of private investors. The conducted research confirms the increase in the share of private sources in the total revenue sources to approximately 26% in 2018 and almost 29% in 2019. Sectoral analysis of sports clubs whose share of private sources in total revenue sources exceeded 50% showed that such sports clubs have a better financial situation, therefore it can be concluded that an increase in the share of private sources in total revenue sources improves the overall financial situation of the club sector sports with the status of public benefit organization, which positively verifies the second hypothesis. This shows that in recent years private investors have invested their funds to a greater extent in non-profit sports clubs, which in general demonstrates the better financial situation of both institutional and individual donors. Unfortunately, further verification of the results of the sectoral analysis of Polish public benefit organizations in the coming years may be disrupted by the time of the COVID-19 pandemic.

### Conclusions

The sectoral analysis of Polish sports clubs with the public benefit organization status allows not only to assess the financial situation of this group of entities directing their activities aimed at the social effect of supporting and popularizing physical culture, but also to determine the position of individual sports clubs in the sector in a given period. If we analyze several periods, we can determine what has changed the position of the sports club, which is useful both for the donors and the sports clubs themselves. Such an analytical tool may be based, depending on the needs, on one financial indicator or on several or more than a dozen financial indicators. During the COVID-19 pandemic, donations from private individuals, which so far according to Goldmann (2020) have been the main source of income from private sources, may be withheld or significantly reduced, which will certainly have a negative impact on the financial situation of the organization. On the other hand, the suspension of sports clubs due to government regulations related to COVID-19 may even be a reason for the closure of sports clubs. In the future, it is worth analyzing the financial situation of Polish sports clubs with the public benefit organization status, both in terms of surviving the inability to conduct business during the COVID-19 pandemic, and the development of revenues and sources of revenues after this difficult period.

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