

# THE RELEVANCE OF SPORTS FINANCING

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**Abstract:** According to estimations sports exploit approximately two percent of world GDP. In addition sports represent an important function in culture, socialization and also in education, act an outstanding role in economy, as well, though academic researchers cannot find positive relationship between sports financing and economic growth. Sports were originally civil actions, with non-profit nature, where they did not aspire to reach high returns, but fulfilment of sport itself. However returns can be realized and reinvested in sports. This paper tries to collect the different aspects of sports financing in order to highlight its relevance.

Sport has now emerged its own markets. Countries, which have developed sports market, have worldwide dominance.

Starting from the eighties sports have evolved into a full-fledged business branch. This progress has involved the development facility management, marketing, tourism and mass communication in sports (Szőke and Kondorosi, 2014). In the 1990s, regime change occurred and caused high losses and demand for sports showed negative orbit in the following years.

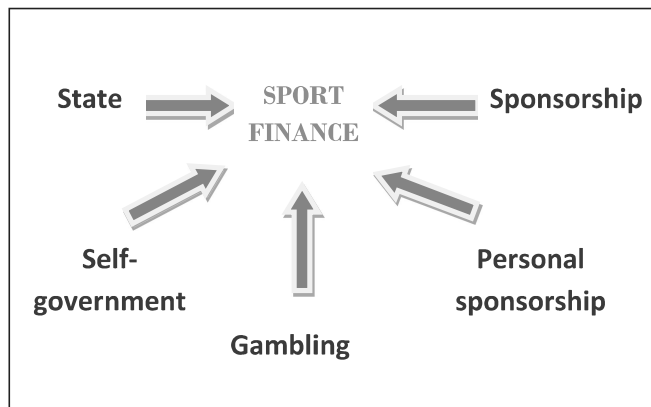
As a matter of fact, in terms of sports financing, Hungary is lagging behind developed West-European countries (Szőke and Kondorosi, 2014). Nowadays feature is that we are trying to catch up subsidies affecting sports, including the corporate tax relief (Herczeg et al. 2015, Bács (2015), for instance, but it is still necessary to increase those opportunities, which can reinvigorate the sports market and give a helping hand, actives in sports.

In Hungary, the appearance of sport finance is dual, because it is regulated either by state or by market, but market is more significant. The target of finance is not only the operation of organizations, but also the market value created by the leaders of organization (András, Havran and Jandró, 2012).

In Hungary three segments can be separated, all with different attributions. A non-profit featured sport enterprise is operating in civil form, where consumer is marginal. Sports appear as activities with the purpose to reduce transaction costs. On contrary a state sports organization can be multifarious according to its form, but the consumer is also marginal here. Sports are prestige formulating their goals as a social purpose. Perhaps the most different one is the third form, the sport business enterprises, where sport is nothing more than a service, where the consumer has the most important role. Its purpose is value creation, its environment is shaped by the market. Their focus is on the consumer and their goal is value creation in addition to capital gains, there

are not only the players in the market but in the background there are products, too, which are able to achieve their goals. In such organizations we have to count with the fact that they are intending to increase their role in the market for the long-term maintenance (András, Havran and Jandró, 2012).

Diagram 1. Sources of sport financing



Source: own compliance

Sport finance composed many segments; these include state, self-government, sponsorship, personal sponsorship and gambling. Financing is limited by the state, the framework of this regulation provide budget act, the rule for public finances and regulations for supporting sport. National supports are able to divide into three main segments; liquid amounts by national support contracts, added to this certain percent of revenues from gambling and amount of normative direct subsidies. Because national support is regulated, to that we can achieve any improvement the area of sport finance, must take advantage of opportunities related to the business sport organizations and consumers.

Financing has three subdivisions, individual sports, sports

organizational system and financing of sports institutions. We regard individual sports as individuals making leisure sports or rather following up spectacle sports, so paying for realization sports. Thus, consumers can contribute two ways of sports' subsidies. On one hand, takes part in sport, hereby intensify of flowing amounts to the leisure sports, or on the other hand, in point of looking others' sports expanding cash register of spectacle sports.

It can be concluded from this area, that growing income may results growing individual sports and growing prices connection to the requisition of sports may couple decreasing sporting occasions. According to *Gősi (2007)* greatly contribute to the financing of sports activities, including revenue from the athlete, and consumers, created income during the production of sports activity, the amount of various subsidies, incremental revenues and earnings arising from the media mediation. Financing of sport activities can be informal, private and community sources. Informal sport activities are not accompanied with significant use of sources, thus sports as service does not appear. In case of private funding, contribution of private sector appears more for service usage, than the state or self-government. Private financing may happen by means of participation, when athlete finance on his own sport activity. In this case, more than fifty percent of the income for the owner of sports activity is financed by the athlete himself. The other case of private financing is external, where not only the athlete, but also other actors supply the greater part of returns (for instance sponsor or media). In Hungary, mostly the community finance is typical. This is the case when the community more involved in financing, as the contribution of the private sector. It can be central or local level (*Gősi, 2009*).

Supporting of an organization (*Bácsné Bába (2015)*) or institution has raised a question. In this case we can talk about association, and business sports. As we mentioned earlier, in association sport reaching profit is not the main purpose, in this case, put the emphasis on carrying out the activity itself. Till in business sports value creation and reaching profit is the primary purpose.

It is widely discussed in the literature, whether new facilities should be financed by private or public investors (*Coates & Humphreys (2003)*, *Siegfried & Zimbalist (2002)*, *Becsky et al. (2015)*, *Szőke et al. (2015)*). Despite sporting events are popular throughout the world the academic researchers did not find positive relationship between economic growth and sport facility constructions, there was no evidence of positive economic benefits, even more, according to some articles negative economic impact of sports facilities and teams was found. Therefore sports facilities and professional sports teams may not become economic engines of economic growth. There are three reasons for it. The first is the *substitution effect* that means most families have a relatively fixed budget to spend on entertainment, so in case there are no professional sports events, they spend it on a substitute service. The second one is the *leakages*, where the raised revenue goes to the players, the owners and the teams. The economic impact depend on, what part of it stays in the local economy and what part leaks

out to the world's money market. The third reason is the *budgetary impact*, that means in case the financing burden of the facility is high and the incomes are not enough for them then it should be financed publicly, that can generate budgetary problem for the local government (*Siegfried-Zimbalist (2006)*). Despite it is commonly known from the literature that funding of professional sports facilities are not justified economically, the public funding of constructing such facilities continues to flow either in the US or in Europe. It is also widely discussed in the literature that professional sports investing has particularly high risks in addition the revenue and cash flows highly depend on the success of the sport teams. It should be considered when planning a professional sport facility with a high initial investment (*Rebeggiani 2006*).

Although in the past innovative forms of financing sport stadiums have been implemented, it can be seen, that governmental presence is still necessary, at least for debt guarantees. Among all financing forms, Public-Private-Partnership models are the most adequate way to overcome the inherent particular risks of the sports market for private investors.

The varied infrastructural investments have long term effects on the society (*Nagy et al. 2014*), so constructing sports facilities benefits should be examined not only financially, but also sociologically. These benefits can be the healthier population with more effective mental and physical performance. According to (*Coates-Humphreys, 2003*) the non-pecuniary of professional sports teams and facilities can be civic pride, greater sense of community, and also consumption benefits occurs for those attending games.

Today's trends in a number of conclusions can be drawn from Hungary. Fortunately, now the importance of the sports segment of the economy has been recognized. The sports area can be funded as well as the culture. Increasingly sports area is becoming attractive also offers entertainment for the public. Willingness by the public financing of sports is closely related to their incomes. There is a linear relationship between sustain growth of population income or even decline in and between amounts in the sport investment. The higher the income of the average person is, the more inclined is to be spend to relax, such as spectacle or leisure sport. The other side of funding is the state. The role of the state supporting has increased significantly in recent times, more and more of this amount flowed through the sport, mainly for infrastructure improvements. In Hungary, the most current forms of support is the corporate income tax, assistance to the five main spectacle of sport, there is a major target to increase for 2020. But beyond the tax relief, appear tax exemptions, which still contribute more sports finance. The form of support can be normative, an application based and available by tender. Another major source of government grants itself the gambling tax, which go directly to the sports budget sector. In addition, we can talk more objective of the Union, which segments of sport developing at the European level, creating a synergy of sports clubs and organizations (*Nagy and Bácsné Bába 2014a, b*), "whiteness" of sports tournaments. The ongoing 2014-2020 period the EU intends to

support sport with Erasmus program, and provide 265 million EUR beyond objectives of the above-mentioned to support athletic careers. Additionally, the EU hopes using this amount to encourage voluntary activities in sport. In Hungary, the emphasis is on the development of infrastructure, international collaborations, and sports events, the goal is the promotion of these areas.

There are two topics in sport financing, which need to be analyzed in much more detailed level is financing of sport facilities and financing a leisure sport. According to Szabó (2013) leisure sports can be any physical recreational activity doing regularly or irregularly in one's free time in order to maintain or restore health, recreation, amusement, or to achieve a feeling of physical and spiritual wellbeing, both during and after the exercise. We can participate in sports at fitness centers that provide equipment and services on a for-profit basis; at facilities run by state governments, municipalities or communities; in public parks; with civil-society groups (organizations) or even at home.

Leisure sport in Hungary is not in a high focus of the sport society, while it does not connect to any special sport association, despite every sport have connection to this field as well.

Financing of sport facilities is a crucial topic in Hungary, while in the past years Hungarian government had invested millions of euros in different sport facilities, and the current financial outlook of these facilities does not seem as an easy exercise for the owners or operators of the facilities.

Beside the current Hungarian situation the international trends also show towards financing of sport facilities is more and more crucial in sport industry. These trends are the followings:

- An explosion in construction of new sports facilities
- An increase in the cost of new stadium construction.
- An increase of functionality of new stadiums.

All of these aspects are relevant on national level as well, not only on international, European level, so a general examination of this area can be a topic of further deeper analyses.

According to Elbert (2006), leisure sports activities can get support from the following resources:

### **1. Expenditures by respective governments and other state support. State subventions for leisure sports and for sport facilities come from various forms**

- normative support defined by law,
- tenders from various organizations
- individual decisions.

While leisure sport does not belong to any special sport association, the Hungarian Olympic Committee (MOB)'s role has been expanded to include not only professional tasks, but decisions on the allocations of other sports.

Regarding to financing of sport facilities Hungarian government has key role in investment of new sport facilities from different governmental sources and funds, but in daily operation of these new facilities there is not any significant governmental financing.

### **2. Private contributions from households and companies**

This is the leisure sport's most important source of funding, as „health industry” is more and more important sector on macroeconomic level, while on a higher development level citizens spend more for their own health. We are not aware of any quantities research in this area, but we estimate increasing trends in this filed in the near future. Sponsorship, as a form of private contribution is also an important form financing leisure sport activities. There are several companies sponsoring leisure sport activities, while it is an important element of their own Corporate Social Responsibility (CSR) policy. According to Becsky (2011) the indicator of the strategic goal increase of income can be the income of sponsors. For successful sponsorship contracts appropriate media offer is needed, with marketable spaces for the advertisements of sponsors.

Mainly due to economic difficulties private contribution of individuals for financing of sport facilities in Hungary is quiet low. There are not a lot of people on sport events, merchandising and television broadcast fees mainly belongs to clubs, not to sport facilities. In brand new arenas the companies' contribution are relevant, because of different reasons companies prefer advertisement in these new facilities, and higher quality seats (VIP sector, skyboxes) are also preferred by these companies. The premium seats, luxury boxes, restaurants and hotels can make sports facilities into entertainment centers, and have the potential to generate revenues, that are highly above the ticket- price, drink, food and parking revenues (Siegfried and Simbalist, 2000).

### **3. Contributions from local governments**

The Hungarian law on local governments entrusts the bulk of public services to city, town and village government bodies. Local governments appropriate most of the funds for leisure sports; they own the overwhelming majority of sports facilities (70 to 90 percent) and usually finance renovation and operation costs. A considerable part of the municipality owned facilities are outdated, badly managed and can only be operated with considerable financial support. In the new system of districts that is presently under development, municipalities will not be obliged to finance sports and the volume local-government resources will decrease from leisure sport point of view, and from sport facility financing view as well.

*Sources of financing leisure sport and sport facilities*

|  | Leisure sport financing | Sport facility financing |
|--|-------------------------|--------------------------|
| Expenditures by respective governments         | MEDIUM                  | LOW                      |
| Private contributions of companies, households | MEDIUM                  | LOW                      |
| Contributions of local governments             | LOW                     | LOW                      |

*Source: own compilation*

## CONCLUSION

Sports financing in Hungary is underdeveloped, but according to the new forms of public support several new facilities are built nowadays. According to the academic research sports facilities and professional sports teams have no economic benefits and there is no evidence on positive relationship between sports financing and economic growth. Furthermore professional sports investments have particularly high risks, and the cash flows highly depend on the success of the sport teams. On the other hand sports financing has long term social benefits, as mentally and physically healthier population, so sports financing should be examined not only economically but also sociologically.

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