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Emily Sparvero

Aubrey Kent

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Abstract

The outcomes and motivations of athletes and teams who engage in CSR activities are widely studied, but little to no attention has been paid to the management and operation of professional sport team nonprofit organizations (NPOs). In this study, the financial records of the charitable NPOs of 84 United States based professional sport teams from 2002 to 2010 were analyzed. Results indicate that there are differences in efficiency based on the ways in which team NPOs are classified. Additionally, team NPOs are compared to nonprofit industry standards, and the Team Nonprofit Score (TNS) is introduced as a tool to compare the financial efficiency and capacity of team NPOs to one another.

Keywords: *sport teams; nonprofits; foundations; CSR*

Emily Sparvero is a clinical assistant professor in the Department of Kinesiology and Health Education at the University of Texas at Austin.

Aubrey Kent is an associate professor of Sport and Recreation Management at Temple University.

Please send correspondence to Emily Sparvero, sparv@austin.utexas.edu

Professional sport teams have a long history of charitable involvement in their host communities, and their involvement serves to attract attention for charitable causes and deliver public relations benefits to the team (Babiak & Wolfe, 2009). One of the earliest examples of this relationship can be seen in a 1948 episode of the popular program, *Truth or Consequences.* Ralph Edwards, the show's host, visited "Jimmy," a young cancer patient at Memorial Hospital in Boston. Edwards asked the patient to name his favorite players from the Boston Braves, and as he did so, members of the team entered the room, bringing Boston Braves memorabilia for the young boy. At the close of the show, Edwards asked his listeners to donate money for a television for Jimmy's room and to help Jimmy and the boys and girls of America (Krueger, 2007). In response, listeners donated more than $200,000 to the Children's Cancer Research Fund, which was renamed the Jimmy Fund. The Boston Braves adopted the Jimmy Fund as the team's designated beneficiary of fund-raising efforts (Miller, 2006). The relationship born in 1948 endures to this day, as the Jimmy Fund of the Dana Farber Cancer Center is the primary charity of Major League Baseball's Boston Red Sox.

While teams have long engaged in charitable works in their communities, there has been a deliberate increase in the formalization of such involvement over the last two decades. The creation of a nonprofit entity affiliated with a professional sport team is a visible way in which the team can demonstrate its commitment to the community and bolster its CSR bona fides. In 1963, the New York Yankees were the first team to incorporate an independent charitable foundation. This action was quickly followed by the New York Mets creating their foundation in 1964, and the Baltimore Orioles creating their foundation in 1965. By 2001, 74 of 112 U.S.-based professional sport teams had independent charitable nonprofit organizations (NPOs) that filed annual financial documents with the Internal Revenue Service (IRS) (Extejt, 2004). By 2005, the number of U.S.-based teams with independent charitable NPOs increased to 95 of 114, and another eight teams conducted philanthropic activities as a part of a larger charitable foundation (Robinson, 2005).

Currently 97 of 113 U.S.-based teams have independent charitable NPOs, and they have seemingly emerged for a variety of strategic reasons. In some cases, charitable involvement is mandated by host communities in exchange for public financing of stadium for the team. For example, in the Dallas Cowboy's Master Agreement with the City of Arlington, the team or selected entities affiliated with the team are required to pay $500,000 each year into an NPO that was created to disperse the monies (City of Arlington, 2004). In other cases, sport teams may create NPOs to establish goodwill in a new community after relocation. For example, Bud Adams moved the Houston Oilers to Tennessee in 1997, and in that same year created the Tennessee Titans Foundation to help disperse grant monies to various nonprofit organizations throughout Tennessee. Finally, teams may create NPOs in response to acute community needs or disasters, such as the creation of the New

Orleans Saints Katrina Relief Fund after Hurricane Katrina devastated much of the area in 2005.

Researchers in this area have looked at how CSR activities are communicated by teams (e.g., Walker, Kent, & Vincent, 2010), how fans react to CSR (e.g., Walker & Kent, 2009), and the underlying motives for CSR initiatives (e.g., Babiak & Wolfe, 2009). With regard to charitable work specifically, researchers have focused on the relationship between athletes and their foundations (e.g., Babiak, Mills, Tainsky, & Juravich, 2012; Burch & Murray, 1999; Tainsky & Babiak, 2011), and foundation vs. team performance (e.g., Inoue, Kent, & Lee, 2011), but have not as of yet investigated the specific operations of professional sport team NPOs themselves. While it is important to note that teams engage in much community-based outreach independent of their NPOs, an assessment specific to these organizations is necessary in order to determine their distinctive features, as well as the degree to which traditional nonprofit financial evaluation metrics apply to these foundations. From a managerial perspective, an improved understanding of the financial performance of sport team foundations would allow for identification and sharing of best practices and sources of comparative advantage across foundations to maximize benefits to both sport teams and their host communities. From this, the purpose of the current examination is twofold: (1) to understand the financial management and performance of professional sport team foundations; and (2) to compare performance trends among sport team NPOs with established nonprofit sector benchmarks.

Review of Literature

The Nonprofit Environment

Nonprofit organizations exist to address market failure or failures in the government or private sector, and their existence can be viewed in the context of both demand and supply. From the demand side, nonprofit organizations provide goods and services that are demanded by society but that for-profit corporations or the government are unwilling to supply (Ben-Ner & Van Hoomisen, 1991). The failure of the government or for-profit firms to provide a desired good or service results in residual unsatisfied demand, which is met by the nonprofit sector (Weisbrod, 1974). From the supply side, nonprofit organizations exist because individuals identify goods or services that are not adequately supplied by either the for-profit sector or the government (Ben-Ner & Van Hoomisen, 1991). Whether nonprofit organizations are a result of demand-side factors, supply-side factors, or often some combination of the two, they must operate in a manner in which they can cover the expenses incurred in providing goods or services in support of their mission. Further, while the emphasis in nonprofits is on stewardship and accountability, the ways in which organizations use their revenues indicate their priorities (Chabotar, 1989).

In a for-profit company, efficiency is incentivized because the company's earnings are returned to its shareholders and owners. A nonprofit organization, however, is prohibited from distributing its earnings to anyone who exercises control over its operations (e.g., shareholders, trustees) (Hansmann, 1980). In the United States, the IRS enforces a private inurement provision for public charities that specifically requires a nonprofit organization to be "organized and operated exclusively for exempt purposes…and none of its earnings may inure to any private shareholder or individual" (IRS exemption requirements). Because of this nondistribution constraint, nonprofits lack a market-based incentive for efficiency (Easley & O'Hara, 1983). Thus, basic economic theory would suggest that nonprofits would be less efficient than their for-profit counterparts because management does not directly benefit from an organization's wealth creation (Fama & Jensen, 1983), and also that they may exhibit a variety of inefficiencies, including slow response to increased demand and less efficient use of inputs and outputs (Hansmann, 1980). As there are not market structures that reward efficiency, financial performance in nonprofits is primarily policed by external actors.

In the United States, a substantial benefit to nonprofit organizations is an exemption from federal income tax and the tax deductibility of donations made to the organization. Exemption from corporate income tax saves the organization from 15% to 39% under current (2012) U.S. federal tax rates. In many cases, nonprofit organizations that are exempt from federal taxes are also tax exempt under individual state law, which often translates into additional savings for the organization. Additionally, donors to a tax-exempt NPO can deduct up to the entire amount of their gift from their personal federal income tax, thus helping to incentivize giving.

These tax benefits to the organization and to donors represent an implicit subsidization of nonprofit activities by federal, state, and local governments. As a consequence of this, the federal government provides oversight for Nonprofits in the U.S. through the IRS. The IRS has annual reporting requirements for Nonprofits and an audit process that examines an NPOs compensation practices, fundraising activities, transparency, and accountability. As the IRS confers tax-exempt status on Nonprofits, it also has the power to enact sanctions on organizations that fail to comply with its regulations. The IRS may impose intermediate sanctions on organizations that fail to file the required annual reports or those that violate the private inurement rules (Hopkins, 2003). Available sanctions are wide ranging, including financial penalties on individual nonprofit executives, or revocation of the organization's tax exempt status (Brauer, Tyson, Henzke, & Kawecki, 2002).

State attorneys general act as another supervisory actor for nonprofits. Attorneys general are responsible for consumer protection laws, which are relevant to Nonprofits when there is concern over financial mismanagement or misrepresentation. For example, after September 11, 2001, the American Red Cross set up the Liberty Fund and proposed using $264 million of this to create a permanent fund to respond to future terrorist attacks. The New York state attorney general threatened the Red Cross with legal action if this was done and accused the Red Cross of violating the public trust (Carson, 2002).

Rating Nonprofits

In addition to governmental oversight in the form of the IRS and attorneys general, several independent watchdog groups exist for the purpose of helping donors make well-informed decisions about their charitable giving (Sloan, 2009). The existence of these groups exerts pressure on nonprofit executives to meet the requirements that would merit positive ratings. Charity Navigator conducts the most comprehensive financial evaluation of the three major watchdog groups (the other two being the Better Business Bureau's Wise Giving Alliance and the American Institute of Philanthropy). Charity Navigator evaluates 501(c)3 public charities (not private foundations) with public support greater than $500,000 and total revenue greater than $1 million. The financial health of nonprofits is evaluated based on their organizational efficiency and organizational capacity, and they are rated on a scale from zero to four stars on a variety of ratios. These ratios include an evaluation of the amount an NPO spends on its programs. Charity Navigator found that 70% of charities spend at least 75% of their budget on programs and services, and 90% spend at least 65%. Because they only rate public charities, they are able to also calculate the percent of total budget spent on administrative and fund-raising expenses separately. They calculate fund-raising efficiency and award the highest marks to organizations that spend 10% or less. Like the Wise Giving Alliance, Charity Navigator also considers how long an organization could sustain programs and services without additional revenue (i.e., working capital divided by total expenses). Charity Navigator also considers annual growth of primary revenues and program expenses for 3–5 years (Charity Navigator, n.d.).

The stated purpose of these watchdog groups is to help donors make informed decisions about the charities they support. The nonprofit sector is a market in which organizations compete for donors, who provide low-cost capital to the organizations (Fama & Jensen, 1983a). Rating systems increase transparency and reduce the cost of information seeking. Thus, these ratings may encourage efficiency, as we would expect that charities with the highest ratings or endorsement (i.e., the most efficient organizations) would be the most attractive to potential donors. There is a lack of consensus regarding whether this hypothesized relationship holds. Tinkelman and Mankaney (2007) and Greenlee and Brown (1999) found the expected negative relationship between administrative/fund-raising expenditures and donations. However, Frumkin and Kim (2001) found that organizations that position themselves as cost-efficient did not have an advantage over other nonprofits in terms of attracting donations. Existing donors may also serve a monitoring function for the organization (Fama & Jenson, 1983). Research has shown that the proportion of program expenses to total expenses increases as the proportion of major donors on the board increases (Callen, Klein, & Tinkelman, 2003).

The program spending and fund-raising efficiency ratios used by the three major rating agencies are consistent with the metrics used in the nonprofit literature (e.g., Callen et al., 2003; Frumkin & Kim, 2001; Weisbrod & Dominguez, 1986; Yetman & Yetman, 2004). While the application of efficiency ratios to nonprofit organizations is useful, there are problems associated with these external rating systems. The existence of minimum standards may incentivize nonprofit executives simply to meet these standards, which may not optimize efficiency. For example, there are costs associated with the cultivation of donors, which could require substantial fund-raising expenditures. The fund-raising efficiency ratio of such an organization would likely be higher than its counterparts, but at the same time, donor cultivation is an investment. Once a donor has been successfully recruited, it is less costly for the organization to retain and service that donor as compared with identifying and cultivating relationships with new donors. As such, in the interest of meeting program expenditure and fund-raising guidelines, organizations may not invest the necessary resources to increase their organization's capacity (Letts, Ryan, & Grossman, 1999). The pressure to meet external guidelines may also lead to misrepresentation and underreporting of expenses by the organization (Froelich, Knoepfle, & Pollak, 2000; Krishnan, Yetman, & Yetman, 2006).

While there is a significant and growing literature on the financial performance of nonprofits, the small sub-sector of sport team NPOs have not yet been empirically examined. These NPOs within sport are now de rigeur, and as such demand ongoing academic attention. Previous nonprofit research has not included them likely due to their lack of identification within typical nonprofit research parameters (e.g., "arts"). This is not necessarily a bad thing, as it has been strongly suggested that sport itself may be something of a unique entity within society (e.g., Smith & Westerbeek, 2007; Chalip, 2006). This leads to the suggestion that since sport is so institutionalized, it may need a different conceptualization of CSR and CSR evaluation (Godfrey, 2009), and Babiak et al. (2012) incorporated this idea into their discussion of athlete foundations. Further empirical assessments such as the current study present a more objective way of legitimizing this line of discourse.

Methodology

Sample

For this study, annual financial information for 84 professional sport team NPOs was used. First, we determined whether each professional sport franchise in the National Football League (NFL), National Basketball Association (NBA), National Hockey League (NHL), and Major League Baseball (MLB) had a separately incorporated NPO. This information was collected and verified through the teams' websites, the listing of NPOs maintained by the Sports Philanthropy Project, the National Center for Charitable Statistics (NCCS), and GuideStar, which is a public charity that collects information on NPOs. Once the list of sport team NPOs was finalized, the IRS 990 Form for each organization was retrieved from the NCCS database for all available years between 2002 to 2010. IRS filings of separately incorporated team foundations were available for 84 of the 114 United States-based teams in the NFL, NBA, MLB, and NHL, and in total yielded 687 NPO years to be included in the analysis (see Appendix A; please note that the "established date" for each NPO represents the first year of IRS filing, not necessarily when the NPO began operations).

Teams were excluded from the analysis for a variety of reasons. Because of different reporting requirements between the United States and Canada, this study was delimited to American sports teams, thereby excluding nine Canadian teams (Calgary Flames, Edmonton Oilers, Montreal Canadiens, Ottawa Senators, Toronto Blue Jays, Toronto Maple Leafs, Toronto Raptors, Vancouver Canucks, Winnipeg Jets). Additionally, four teams that have formed their team NPOs since 2009 (Oklahoma City Thunder, Anaheim Ducks, Minnesota Wild, and Pittsburgh Penguins) had not yet submitted annual filings with the IRS at the time of this study and were excluded. Four team NPOs were excluded due to being individual funds of larger local community foundations. The San Diego Padres Foundation is part of the San Diego Fund, the Miami Heat Fund is part of the Miami Foundation, the Portland Trailblazers' Make It Better Fund is part of the Oregon Community Foundation, and the Carolina Panthers Foundation is part of the Foundation for the Carolinas. An additional seven teams were excluded as their work in this area functions as part of the team owner's charitable foundation. These include the Detroit Tigers and Detroit Red Wings (Ilitch Charities), the Cleveland Cavaliers and Denver Nuggets (McCormick Tribune Foundation), the Colorado Avalanche (Kroenke Sports Charities), the Utah Jazz (Larry H. Miller Charities), and the Atlanta Falcons Youth Foundation (Blank Family Foundation). In some excluded cases, the charitable nonprofit activities of the team were part of a larger entertainment group, and the individual financials attributable to the team could not be separated from nonsport contributions. This was most frequently seen in the case of the following arenas that hosted both basketball and hockey teams, in addition to hosting a full calendar of entertainment events: Washington Wizards as part of the Washington Sports and Entertainment Foundation, the Philadelphia 76ers and Philadelphia Flyers as part of Comcast Spectacor, and the New York Rangers and New York Knicks as part of Madison Square Garden's Garden of Dreams Foundation. The Buffalo Bills, the Miami Dolphins, and the Kansas City Royals have separate team NPOs, but were excluded as they did not file a full 990 form with the IRS during the period of interest (organizations that have annual gross receipts less than $25,000 have the option to file Form 990-N, which does not include financial information). Finally, the New Jersey Devils Foundation was excluded as they showed zero revenues and expenses during the time period investigated. Given the exceptions noted above, there were only six additional teams which were not included in the current analysis, teams for which the existence of a separately incorporated NPO could not be found as of this writing; these being the Chicago Blackhawks, Cincinnati Bengals, Milwaukee Bucks, New Orleans Hornets, Oakland Raiders, and Pittsburgh Steelers.

Analyses

For the period from 2002 to 2010, revenue and expense data for the 84 teams in the sample were recorded from each team NPOs 990 form, filed with the IRS.[1] For NPOs filing as public charities, the following revenue information was obtained: (1) contributions, gift, and grants; (2) program service revenue; (3) investment income (from temporary cash investments and securities); (4) special event revenues; and (5) total revenues. Expenditure data was obtained in the following categories: (1) program service expenses, (2) management and general expenses, (3) fund-raising expenses, and (4) total expenses. NPOs that filed as private foundations reported the same revenue categories as were reported for the public charities. However, expenses reported by private foundations are not broken into the same categories as public charities, so the expense information was obtained from reported contributions, gifts, and grants paid and total expenses. Total assets, total liabilities, and net assets were obtained for both groups. From this information, the following financial measures were calculated: (1) revenue growth; (2) mission-related expense growth; (3) mission-related expense ratio, which is the total mission-related expenses divided by total budget; (4) working capital ratio, which is how long programs could be sustained without any additional revenue; (5) operating margin; and (6) debt ratio. With these calculations, after presenting them in a descriptive fashion, the data are presented in such a way as to allow for comparisons within respective leagues, across leagues, with certain nonprofit benchmarks, and over time.

Team Nonprofit Score (TNS)

Finally, we computed an overall Team Nonprofit Score (TNS), a formula that is proposed in this paper to be used for rating nonprofit organizations associated with sport teams. While it is useful to see how sport team NPOs compare to others using industry watchdog measures, the distinctiveness of sport-based NPOs—whether the degree of cooperation, subsidization, sharing of resources, or their general relationship with the public—suggests that they may operate in ways that make such general comparisons insufficient. Indeed, as noted previously, groups such as Charity Navigator already categorize and evaluate nonprofits differently based upon their missions and activities. In light of this, the current investigation developed a system to compare sport nonprofits amongst themselves, in the hopes of best practices "emerging from within," as it were. Using the ratios already described, we determined quartile values for each of the following factors: (1) average revenue growth, (2) mission-related spending growth, (3) mission-related expense ratio, (4) working capital, (5) operating margin, and (6) debt ratio.

Results

Overall impact of sport team NPOs

Professional sport team NPOs are an important player in the local nonprofit landscape in the United States. From 2002 to 2010, NPOs representing 84 American sports teams collectively reported spending $431,252,163 on programs and grants related to their charitable missions. As noted earlier, there has been significant growth in the number of teams with independently incorporated NPOs, but in the past decade, even more significant has been the growth in the amount spent by NPOs to support their charitable missions. In 2002, the median amount spent on mission-related spending was $348,575. In 2010, the median amount spent on mission-related spending was $772,307. When adjusted for inflation, this represents a 70.2% increase. This includes both funds spent to support programs run by the sport team NPO and grants made by the sport team NPO to nonprofit organizations with similar missions. Even in the face of the global economic recession, spending has remained steady, as total mission-related spending peaked at $62,999,518 in 2008 with only a slight decrease in 2009, to $60,083,507. The mission-related spending of the team-based NPOs with the highest and lowest averages is provided in Table 1.

Table 1

Average Mission-Related Spending of Team-Based Nonprofits

NONPROFIT	LEAGUE	MISSION RELATED SPENDING
Top 10		
Boston Red Sox	MLB	$4,150,632
Memphis Grizzlies	NBA	$1,838,038
New York Yankees	MLB	$1,790,304
Arizona Diamondbacks	MLB	$1,780,684
San Antonio Spurs	NBA	$1,565,065
Dallas Cowboys	NFL	$1,562,921
New York Mets	MLB	$1,534,476
St. Louis Cardinals	MLB	$1,533,685
New England Patriots	NFL	$1,519,226
San Francisco 49ers	NFL	$1,300,712
Bottom 5		
Tampa Bay Buccaneers	NFL	$24,995
Orlando Magic	NBA	$33,493
Colorado Rockies	MLB	$81,198
Kansas City Chiefs	NFL	$110,968
Golden State Warriors	NBA	$112,190
Leagues Overall	MLB	$859,549
	NFL	$612,284
	NBA	$548,789
	NHL	$342,007

Classifying Sport Team NPOs

One issue that arose during data analysis was the inconsistency in which sport team NPOs were incorporated. While most (*n*=65) were classified as "public charities," others (*n*=19) were classified as "private foundations" (See Appendix A). This can lead to considerable confusion since, for example, the "New York Mets Foundation" is technically a public charity, not actually a foundation. Additionally, an organization may change its IRS designation over the course of its operations, as illustrated by Dallas Cowboys Charities, which was a public charity from 2002 to 2005 and a private foundation from 2006 to 2010. In fact, most of the sport team nonprofits registered with the IRS as public charities were branded as a "foundation" in their official name. Among the important differences in these two classifications is that public charities generally receive support from a large base of donors, whereas private foundations have very few donors, usually an individual, family, or in the case of professional sport teams, franchise owners and/or players.

More relevant to the current discussion, in addition to the source of support, private foundations are treated differently than public charities under the Internal Revenue Code (IRC). First, there is an excise tax on net investment income. Second, organizations who engage in the following activities are subject to additional taxation: (1) acts of self-dealing (e.g., sale, exchange, or lease of property; lending money or extensions of credit; providing goods, services, or facilities; paying compensation to a disqualified person) between the private foundation and a disqualified person (e.g., substantial contributors, foundation managers, member of the family); (2) failure to distribute income for charitable purposes; and (3) behavior distracting from a foundation's ability to further charitable purposes. (Section 4941 of the IRC). Finally, contributions made to a private foundation cannot be claimed as charitable deductions for the donor. Thus, because of the associated tax benefits and penalties, it is typically advantageous for a 501(c)3 to be incorporated as a public charity, despite being "known" as a foundation.

For the purposes of this research, it is important to make a distinction between public charities and private foundations because the available forms of mainstream nonprofit benchmarking have only been applied to public charities. This makes sense, as the purpose of evaluations of nonprofits by watchdog groups is to provide donors with information to be used in their donation decision. This has both theoretical and practical implications. From a theoretical perspective, we would expect private foundations to be less efficient than public charities because they do not have to compete with other nonprofits and attract donors on the basis of efficiency. From a practical perspective, because watchdog groups do not evaluate private foundations, these organizations do not fear either a public relations or donations backlash associated with poor performance.

With this in mind, it is worthwhile to consider in more depth whether the team NPOs within U.S. team sports are classified correctly. A review of the 19 private foundations indicates that five of them were actively soliciting donations from the public (through an electronic donation option available on the foundation website), suggesting that the remaining 14 were appropriately categorized as being mostly funded through a few large donor sources. Likewise, 52 of the 65 organizations classified as public charities do, in fact, solicit funds from a broad donor base, and in their solicitations, most of these organizations publicize the tax benefit of donations (i.e., a tax deduction equal to the amount donated). The actual development function of these public charities vary by team, but the most common fund-raising techniques were the inclusion of an electronic donation option through the NPOs website and publicity for/invitations to fund-raising special events and programs. In our estimation, the Texas Rangers Foundation is the public charity with the most comprehensive appeal to the public, with options for one-time gifts to the Foundation, planned giving (e.g., estate planning, charitable lead trusts, bequests), information on special fund-raising events and initiatives, and even a call for volunteers to donate their time. Thus, 66 of 84 team NPOs in this study appear to be correctly classified according to IRS distinctions. The implications of misclassification of organizations are as follows: (1) organizations that are misclassified as private foundations are missing opportunities to appeal to a broad base of donors through the tax incentives that they could offer if appropriately classified, and (2) organizations that are misclassified as public charities (but that do not receive funding from a broad donor base) could encounter problems with the IRS for providing inappropriate tax benefits to donors and claiming inappropriate tax benefits for themselves.

Looking across the two categories with a general revenue/expense perspective (see Appendix A), it doesn't seem that classification is a driver of differing levels of activity. More incisively, in order to determine whether or not there was a difference in the financial management of PCs and PFs, we compared their performance on the following variables: total revenues, total assets, program expense ratio, working capital ratio, operating margin, and debt ratio. We calculated average values for each team NPO with at least four years of available data from the time period from 2002 to 2010. For the Dallas Cowboys Charities, an average value was calculated for the organization during its time as a public charity, and again for its time as private foundation, and these were included in the analysis separately. We performed the nonparametric independent samples Mann-Whitney U test, and found that public charities had significantly higher total liabilities (U=348, p=.004), higher program expense ratio (U=390, p=.015), and higher debt ratio (U=358.5, p=.005) than private foundations. There was no significant difference in the total assets, working capital ratio, or operating margin (see Table 2).

Comparing to Industry Standard

We compared the financial performance of sport team nonprofits using the methodology established by Charity Navigator. Charity Navigator was chosen as it is the most comprehensive of the three rating entities described earlier, and in

Table 2
Mann-Whitney U Test Comparing Public Charities (PCs) with Private Foundations (PFs)

	Mean		SD		Mann-Whitney U
IRS designation	PC	PF	PC	PF	
Total Revenues	$ 819,463	$ 829,624	$ 736,974	$ 632,613	597
Total Assets	$ 989,828	$ 1,066,766	$ 1,126,626	$ 1,192,494	594
Total Liabilities	$ 198,940	$ 58,786	$ 656,398	$ 154,876	348**
Program Expense Ratio	.8336	.6788	.1295	.2599	390*
Working Capital Ratio	4.2898	2.6491	13.2605	2.7880	600
Operating Margin	0.0355	0.0638	0.1939	0.2000	507.5
Debt Ratio	0.2539	0.0814	0.5756	0.1842	358.5**

general using all three in tandem would not likely yield any different results or conclusions since they use similar data sources and evaluation metrics in assessing nonprofit performance. In order to view the sport team nonprofit's performance over a number of years, we calculated the average for each of the Charity Navigator metrics (Charity Navigator, n.d.). For the public charities in the sample (n=65), 23 organizations (35%) would receive the highest Charity Navigator rating of four stars. Because Charity Navigator's rating system was developed for public charities and not private foundations (for reasons explained above), we modified the rating system for private foundations. Specifically, private foundations do not report fund-raising activity. Thus, we removed the fund-raising variables (i.e., fund-raising expense and fund-raising efficiency) from the rating calculation. When these variables were removed, the total possible number of points that an organization could earn was reduced by 20 points and the ratings were adjusted accordingly. We used the modified methodology to rate private foundations (n=19), and found that three private foundations (15.8%) would receive four stars. A complete accounting of these ratings is provided in Table 3.

In addition to rating in an absolute sense, it was helpful to compare how sport team nonprofits rate in comparison with other categories of public charities as defined by Charity Navigator. Thus, we chose categories that best correspond to the work that sport team NPOs do, and looked at how charities in these domains clustered in the ratings (see Table 4). Comparable categories were Education (other education programs/services, not including private elementary and sec-

Table 3

Charity Navigator Ratings for Team Sport Nonprofits

Charity Navigator Score (for PC*)	Charity Navigator Rating	Team Sport Nonprofits		Modified Charity Navigator Score (for PF**)	Modified Charity Navigator Rating	Team Sport Nonprofits
>60	★★★★	23 (35%)		>40	★★★★	3 (15%)
50-59	★★★	17 (27%)		30-39	★★★	4 (20%)
40-49	★★	17 (25%)		20-29	★★	7 (35%)
25-39	★	6 (9%)		5-20	★	5 (25%)
<25	No stars	2 (2%)		<5	No stars	0 (0%)
Total		65				19

*PC – Public Charity **PF – Private Foundation

Table 4

Charity Navigator Comparison, by Category

Charity Navigator Rating	Education	Multipurpose Human Service Organizations	Community Foundations	**Sport Team PCs**
4★★★★	36.6% (93)	17% (28)	57.5% (42)	**35% (23)**
3★★★	43.4% (110)	52.4% (86)	37% (27)	**27% (17)**
2★★	16.9% (43)	23.2% (38)	5.5% (4)	**25% (18)**
1★	3.1% (8)	4% (6)	0	**9% (6)**
0	0	4% (6)	0	**2% (1)**

ondary schools, colleges, universities); Multipurpose Human Service Organizations, and Community Foundations. Proportionally, sport team nonprofits were equally represented in the best (4-star) category (35%), however seemed to have more nonprofits represented in the lower tiers (2, 1, 0 stars) than the others (with a cumulative 36%).

Relative Rankings

In addition to comparing sport team NPOs to other similarly purposed nonprofits, we compared performance among sport team NPOs using the Team Nonprofit Score (TNS) ranking system. For each variable within the TNS ranking system, nonprofits in the lowest quartile received 1 point, 2 points in the second quartile, 3 points in the third quartile, and finally 4 points in the first (highest) quartile. The points received across the six categories were summed to a maximum of 24 points. This approach was selected to evaluate financial efficiency as well as the capacity of the organization (revenue and mission-related spending growth). Quartile divisions are provided in Table 5. Results of the TNS ratings are presented in Table 6. These variables allowed for the inclusion of both PF and PC in the rankings, however the average value for these variables was calculated only for the teams that had at least four years of data (*n*=84).

Table 5

Quartile Values with Sport Team Nonprofits

	Avg. Revenue Growth	Mission-Related Spending Growth	Mission Related Expense Ratio	Working Capital	Operating Margin	Debt Ratio
Quartile 1 (4 pts.)	> 0.1197	> 0.1697	> .9285	> 2.9387	>.1264	<0.0037
Quartile 2 (3 pts.)	0.0442 to 0.1196	0.0466 to 0.1696	.8367 to .9285	2.9387 to 1.5123	.1264 to .0281	0.0037 to 0.0558
Quartile 3 (2 pts.)	-0.0300 to 0.0441	-0.0198 to 0.0465	.7321 to .8366	1.5122 to .8805	.0282 to -0.0552	0.0559 to 0.1997
Quartile 4 (1 pt.)	-1.0000 to -0.0301	-1.0000 to -0.0199	0.2608 to 0.7320	<.8805	<-0.0552	>0.1997

Table 6

Team NPO Scores (TNS)

NONPROFIT	LEAGUE	TNS
Top 10		
Rays Baseball Foundation	MLB	24
Green Bay Packers Foundation	NFL	23
Baltimore Orioles Foundation	MLB	22
New York Yankees Foundation	MLB	21
Angels Baseball Foundation	MLB	21
Boston Celtics Shamrock Foundation	NBA	21
Chicago Cubs Charities	MLB	20
St. Louis Blues Fourteen Fund	NHL	20
Colorado Rockies Baseball Club Foundation	MLB	20
Bears Care	NFL	20
Bottom 5		
Florida Panthers	NHL	6
LA Kings	NHL	6
Dallas Stars	NHL	9
Sacramento Kings	NBA	9
Texans, Sharks, Cowboys, Thrashers, & Hawks (tied)	NFL, NHL, NBA	10

Discussion

We began our analysis by looking at the differences in classifying sport team nonprofits and found that there are differences in financial performance according to how organizations are classified. Specifically, NPOs that are classified as public charities (and consequently must appeal to a broad base of donors) spend more of their total revenues on mission-related programs. For these public charities, there is the potential to engage in more sophisticated fund-raising activities and to use their affiliation with the sports team and athletes as a lever to attract resources (beyond those of players and team owners). Although sport team NPOs have not been included in the databases of nonprofit watchdog groups, the financial practices of many of the public charities compare favorably to other NPOs that provide similar services. Thus, these organizations—which already function in a more efficient manner than private foundations and provide various tax benefits—have the potential to expand their support from the community, and consequently, expand their community impact.

The comparison of sport team NPOs with other segments of the nonprofit landscape (health, education, youth development) suggests that some sport team nonprofits are not really concerned with financial efficiency and may exist for PR purposes. Alternatively, their low efficiency may be a by-product of being relatively new to nonprofit management, given that many are less than a decade old. Of course, some sport team nonprofits are efficient and compare favorably with the top-rated charities in other sectors. For those that do not, it is likely that these sport nonprofits would find it challenging to attract donors sufficient to support their mission without the excitement, commitment, and media resources associated with team sports. Regardless, competent management of team NPOs can serve to inoculate teams against poor on-field performance and/or public relations problems, without the risk of foundation scandals that have plagued individual athlete foundations (e.g., Lamar Odom, Lance Armstrong).

The TNS ranking presented here fills an important void in terms of ranking and evaluation of sport team NPOs. Currently, no ranking system for this type of NPO exists. As mentioned previously, none of the established NPO watchdog groups have included sport team NPOs in their databases. From 2005 to 2009, the Sports Philanthropy Project (SPP) administered the Steve Patterson Award to recognize outstanding charities, but the criteria used were subjective (Steve Patterson Award, n.d.). In fact, none of the sport team nonprofits that have won the Patterson Award in recent years would have been highly regarded using the objective ranking system proposed here. This does not mean that these nonprofits are not doing good work, but it does suggest that they are not using their resources efficiently. Instead, the team NPOs that have been recognized by the SPP are more professionalized and have the resources for self-nomination and application. In light of this, it is important that a system of objective criteria be applied to team NPOs—not only because it increases our understanding of how these organizations operate and are managed, but because it would allow for identification and sharing of best practices.

In particular, an objective ranking system would allow for a more nuanced understanding of the success of team NPOs. To illustrate this, we can look at the Boston Red Sox Foundation.

At first glance, the Boston Red Sox Foundation seems to be quite successful, with average mission-related spending that is over twice as great as the team NPO with the next largest average mission-related spending. However, while the Red Sox Foundation is ranked first in mission-related spending, it is ranked 33rd using the TNS. Just as for-profit companies are not evaluated solely on one metric (e.g., revenues), neither should nonprofits be evaluated only on one metric if we want to understand the organization as a whole. The Red Sox have some attributes that would presumably explain their success in mission-related spending, including a strong history of community involvement (and NPO incorporation), a popular team, and a large city from which to draw donations, but these attributes do not guarantee efficient management. Some team NPOs have managed to do both. For example, the New York Yankees Foundation shares many of the same attributes as the Red Sox Foundation, but it ranks high on both total mission-related spending and the TNS. While spending large amounts on mission-related programs and services is important, it is even more important that NPOs do so efficiently. An efficient use of resources would allow an NPO to do even more with the resources that it has.

Finally, and as a limitation acknowledgment, the current study looks at financial management, but it obviously does not measure the impact of team NPOs on their communities. The emphasis on financial efficiency is an important starting point in our understanding of team NPOs, but it is not the same as effectiveness. Ultimately, it is important to understand both efficiency and effectiveness in order to maximize benefits to the NPO, the team, and the community.

Conclusion

Team-based nonprofit organizations continue to proliferate and grow in size and influence. Accordingly, more and more academic and media attention have come to these entities, along with increased pressure to operate in a legal, efficient, and effective manner. Indeed, in September 2013, the U.S. Senate saw a bill introduced that would "amend the tax code to prohibit professional sports organizations with annual revenues over $10 million from enjoying the same tax-exempt, 501(c)(6) status as industry trade associations and public interest groups" (PRO Sports Act, S.1524). Future academic work needs to continue to monitor nonprofit activity at the individual, team, league, region, and industry levels in the hopes of establishing widely regarded best practices and providing normative pressures for improved operations. Ultimately, while sport-based initiatives are blessed with a large audience, they nonetheless need to choose their activities wisely in order to not only maximize impact but to minimize any potential backlash from activities gone wrong. Future work might also be interested in the philanthropic work being done within the sport industry, but outside of the purview of these team-established nonprofits. For example, it is unknown the degree to which league, team, and athlete charitable work is strategically connected in such a way as to maximize benefits, or if they might be in fact redundant and/or operating at cross purposes. The TNS rating system proposed here will allow for follow up with underperforming nonprofits in order to detect shortcomings, improve operations, and ultimately protect them from the dangers of bad publicity that would come inevitably from the spotlight under which they operate.

[1]Note: For brevity purposes, full data is not provided in this manuscript for all tables. Full data is available at the website (http://sthm.temple.edu/sirc) of the (Temple University Sport Industry) Research Center, which the authors thank for supporting this ongoing project.

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