

# Sports Sector in Focus Changes in the Economic Data of Sports Organizations

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*Abstract: Hungarian sports funding has undergone significant changes in the past decade, and the sector, previously struggling with a lack of resources, has become a state-sponsored strand. The study presents the differences by analyzing the accounting statements of different types of sports organizations and by using economic data from sports companies. Economic data were collected from the organizations' publicly available accounting and financial reports. The incredible change is illustrated by the fact that the per capita income of nonprofit sports organizations increased nearly fivefold between 2011 and 2017. Financing through the corporate tax system, which is a special Hungarian subsidy system, is well reflected in the revenues of the sports federations concerned. The total revenue of the six affected sports federations increased from HUF 12 billion in 2011 to HUF 58 billion. Furthermore, accounting reports highlight the fact that NGOs in the sports sector have a special asset structure. This is reflected in the ratio of accrued expenses and funds.*

Keywords: sport sector, sport financing, subsidy, financial reporting

## Introduction

Recently, sport has become one of the determining factors of the national economy in Hungary. Growth has been ubiquitous in the various forms of organizations operating in the sports sector but to a varying extent. Changes in economic characteristics in the sports sector can be obtained from public economic reports, data from the National Tax and Customs Administration (NAV) and the Central Statistical Office (KSH). In the course of the analysis, the accounting reports of sports federations and sports associations were reviewed, which, in total, represents nearly two hundred reports. This is complemented by the public data of the KSH and the data on sports companies with the assistance of the NAV.

The role of public funding in the Hungarian sports sector has increased since 2010. On the one hand, the amount of direct state aid has increased, and on the

other hand, with the introduction of the TAO system, part of the corporate tax payable by businesses has been transferred to the sector. The three main pillars of the funding system are the funds through the corporate tax system, development support for priority sports and the developmental program. This process is reinforced by the central budgetary support of international and domestic competitions. The revised sports strategy has enabled the development of many areas of the sports economy, including the creation of sports facilities [1]. The change in funding was necessary because the sports sector in Hungary had been struggling with a lack of resources for years. In the socialist system, the state provided the majority of funding, but after the change of regime, neither the business sector nor the private sector was able to provide sufficient resources. However, sports federations continued to be dependent on state aid [2]. And while the goal was to create market-based financing, even during this period, the state appeared as the founder of public bodies and public foundations [3]. The sports sector is receiving increasing attention not only in Hungary but also internationally. Among the entertainment industry, sports developed the fastest [4]. However, going to games in Hungary is still an unattractive form of spending free time [5]. As a consequence of economic growth, besides non-profit organizations, profit-oriented enterprises have also appeared in this [6].

The aim of this new support system is the promotion of the participation of younger generations in sports and inspiration for a sporty lifestyle. As a long-term goal, it is important to mention that the system also increases the social base of pastime sport activity [7], improving the health of the population in the long run. In an economic sense, this is also important because sport activities that are suitable for improving the health of those practicing it are not only durable goods for consumption but are also capital goods [8] [9]. Apart from all this, sports can contribute to the social development of a locality [10]. [11]. Expenses devoted to sports can also increase economic efficiency. It also has to be taken into consideration that competitive sports are often seen by certain nations as special kinds of resources that can improve national well-being [12].

## **1 Sports organizations**

### **1.1 National data for nonprofit sports organizations**

Nonprofit organizations in the sports sector are operating in many forms: foundations, nonprofits companies, and sports associations as the most widespread form. The sports association is the traditional organizational unit of the Hungarian sport, the workshop of leisure sports, competitive sports, talent management, and youth training. As a result of the change in funding, the number of non-profit

sports organizations and their revenues also started to increase, which is duly reflected in Table 1. In the study, the known date of the recent period are presented every two years.

**Table 1. Some typical data of non-profit sport sector**

Source: ksh.hu

	Number of sport organizations (piece)	Proportion of organizations within the nonprofit sector (%)	Total income (billion HUF)	Rate of income within nonprofit sector ((%)	An organization average revenue (thousand HUF)
2011	7 563	11,5%	52	4,2%	6 848
2013	7 722	12,0%	77	6,2%	9 920
2015	8 865	14,3%	179	11,6%	20 202
2017	9269	15,2%	291	15,1%	31 373

As Table 1 shows, the number of sports organizations is slowly rising between 2011 and 2017. Their total revenue increased from HUF 52 billion to HUF 291 billion. This also meant that the revenue per organization increased almost fivefold during the period under review. Within the non-profit sphere, the proportion of sports organizations and their revenues increased. In particular, the change in the revenue ratio is significant, from 4.2% to 15.1%.

## 1.2 Spectacular team sports

An important change for the sports sector is that from 2010 it has been treated as a strategic sector at the national economy level. The first economically significant change began with the introduction of the so-called TAO support. The word 'support', however, does not accurately reflect reality. As a result of legislative changes, companies may transfer a portion of their tax directly to sports organizations instead of paying it into the central budget as tax. This means the assign of a certain proportion of the crowdfunding. With the deployment of the system, the five selected sports (football, handball, basketball, water polo, hockey), the so-called spectacle team sports, have gained significant resources. Volleyball entered the program on July 1, 2017. The significance of the TAO system is that almost every organization in a given sport independently develops a sports development program and submits a grant request, and then, in the case of a favorable evaluation, becomes eligible to seek sponsorship, either a sports federation or a sports association. This, at the same time, the system's biggest

problem. Organizations that cannot find a sponsoring company simply do not get the resources they need to operate.

*Evolution of revenue of associations operating in the spectacular sport*

As for the accounting and financial reports, the accounts for the period 2011-2017 were the subject of the investigation. The start year is the same as the actual start of the system. The reporting and accounting systems of NGOs have also changed in recent years, and the unified disclosure of data is also linked to the year 2011. Total revenue for sports organizations is comprised of the following main items: membership fee, state and municipal aid, sponsorship support, sales revenue from broadcasting rights, revenue from event organization, donations, corporate sector support, financial operations revenue, and in the case of the spectacular team sports income from the TAO support. Table 2 shows the total annual revenue of the six spectacular team sports.

**Table 2. Income of federations (thousand HUF)**

Source: yearly financial reports

	<b>2011</b>	<b>2013</b>	<b>2015</b>	<b>2017</b>
<i>Hungarian Football Federation</i>	9 478 538	19 881 663	25 313 769	44 922 341
<i>Hungarian Handball Federation</i>	699 048	2 458 291	4 363 382	8 191 975
<i>Hungarian Basketball Federation</i>	316 653	2 192 004	2 962 311	4 208 181
<i>Hungarian Ice Hockey Federation</i>	549 575	1 138 029	1 109 414	2 171 159
<i>Hungarian Water Polo Federation</i>	597 213	1 193 547	993 399	2 277 467
<i>Hungarian Volleyball Federation</i>	100 603	259 955	563 828	913 993
<b><i>sum-total</i></b>	<b>11 741 630</b>	<b>27 123 489</b>	<b>35 306 103</b>	<b>58 236 490</b>

Table 2 shows a significant increase in revenue for each federation involved in spectacular team sports. The specialty of the Hungarian system is that income categories are not regulated by law. Thus, some federations have listed the support received through the corporate tax system as a central budgetary aid and some have not. The lack of regulation is due to the fact that these revenues have no tax implications, so they are not really controlled by anyone. It is clear from the table that the total revenue of the federations has increased fivefold. Since the TAO system not only provides funds to federations but also to associations directly, the capital inflow into the sector is higher. The purpose of the system was to support sports for the new generation and implement facility development projects. The figures show that this will be achieved, as the number of certified players continues to grow. Another expected effect was the improvement of effectiveness. Indeed, according to research on football, the results achieved in the field are

greatly influenced by the amount spent on each team [13] [14]. However, there is still no significant improvement in this area. Of the spectacular team sports, only water polo continued to qualify for the Olympics.

The structure of assets shows a significant difference from the general one, both in the ratio of accrued expenses and in the proportion of cash. Figure 1 shows the accrued expenses. For an average organization, this percentage is around a few percent. In the sports sector, it has a value of more than 15% everywhere thanks to multi-year subsidies and post-financing facility development projects.

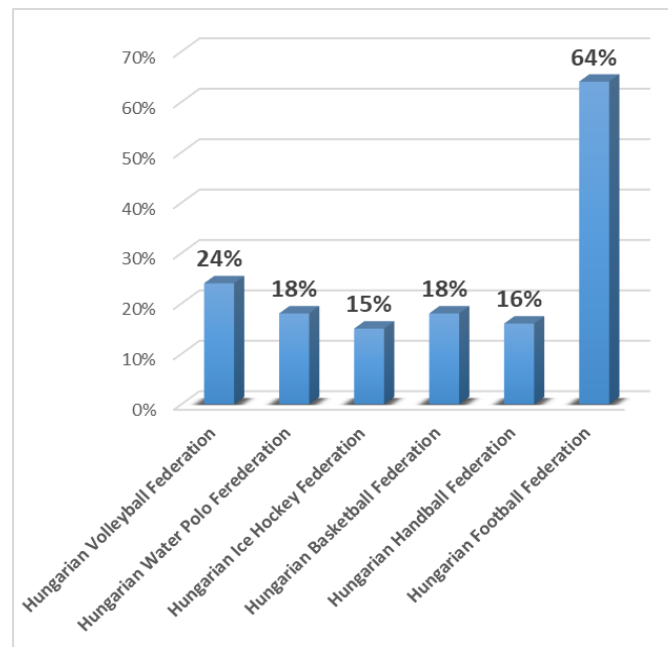
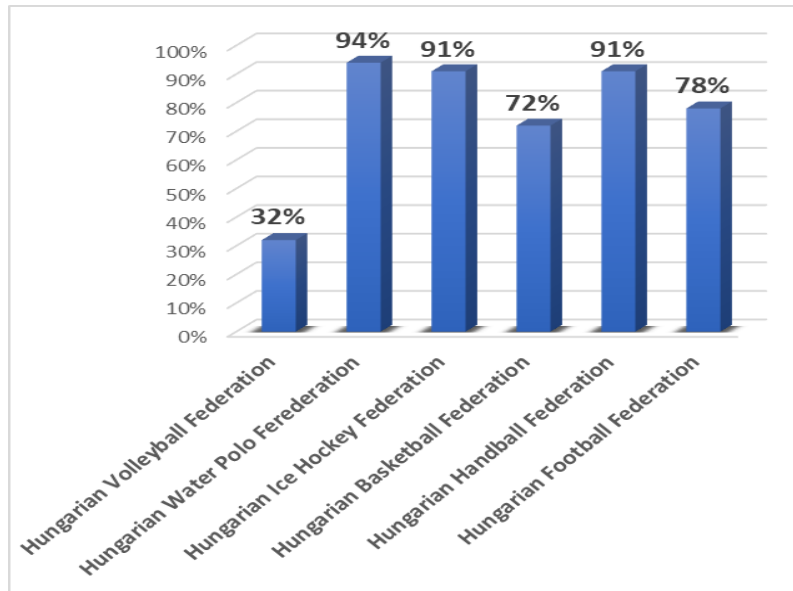


Figure 1. The proportion of passive delimitation, 2017

Source: yearly financial reports

The proportion of funds is shown in Figure 2. Businesses strive to have enough cash to pay off short-term liabilities. In the case of sports federations, the extremely high rate is justified by post-funded projects and facility investments. Most of these projects are implemented by sports associations and are subsequently funded by the federation. As these amounts are forwarded to the federation by the state, they appear on a separate account, but in the financial reports of the federations.



**Figure 2. The proportion of funds, 2017**

Source: yearly financial reports

### **1.3 Management information for sports associations**

There are several changes connected to the year 2013. One is the launch of Priority Sports Development Program and the Developmental Program, both programs started with sixteen different sports. In addition, the government decided to grant special state subsidies for six associations. In the first year, all six associations received at least 300 million HUF, which has since multiplied. Each of the six associations selected by the government was so-called “success maker big clubs”, according to the categorization by Bukta (2013) [15]. What is also common to all of them is that they have their headquarters in Budapest. As previously mentioned, sports associations can be found anywhere in the country. However, if we look at performance, even since the start of the modern Olympics, Budapest's centrality can be observed, and the decision is expected to reinforce this trend.

**Table 3. Income of sport association (thousand HUF)**

Source: yearly financial reports

	2011	2013	2015	2017
<i>Budapesti Honvéd Sportegyesület (BHSE)</i>	446 609	1 163 937	1 388 469	2 130 964
<i>Budapesti Vasutas Sport Club (BVSC)</i>	395 254	851 129	788 481	1 693 560
<i>Ferencvárosi Torna Club (FTC)</i>	403 605	2 978 203	2 574 868	5 469 254
<i>Magyar Testgyakorlók Köre (MTK)</i>	123 365	547 733	1 355 046	1 879 592
<i>Újpesti Torna Egylet (UTE)</i>	824 125	1 006 293	1 075 836	1 940 716
<i>Vasas Sport Club (Vasas)</i>	240 250	773 072	1 656 256	2 165 313

In six sports associations, we examined the membership fee and how it changed. One year is 2011 when it was the first time a significant state resource in the sports sector appeared. The other year is 2017, the year of the research, a year for which a comprehensive data set was available. For five of the six associations, membership fee rates indicate a decrease. More importantly, the value is below 10% everywhere. This is a good reflection of the fact that the civil sector in sport is not currently run by the members of sports associations. Central resources and tax support everywhere exceed the 80% threshold. There are clear dangers to this. Today's Hungarian sports organizations do not make their own income. This degree of dependence could shake up the entire system in the event of a change of government strategy.



**Figure 3. Membership fee rate 2011, 2017**

Source: yearly financial reports

## 1.4 Sports enterprises

The study shows sports enterprises data for 2010 and 2016. The National Tax and Customs Administration provided data for these years. Compared to 2010, the growth rate is clear, with improving trends in the sector. Table 4 shows the summary data. The number of companies operating in the sector increased, the net sales revenue increased even to a greater extent and the number of employees also increased 1.5 times. This is significant because in the sports sector atypical forms of employment are typical [16]. Data provided by the NAV also included the fact that the consolidated earnings before taxes of the sector in 2016 were positive for the first time.

**Table 4. Sport enterprises**

Source: NAV

	2010	2016
Number of enterprises (piece)	5 448	8 463
Net sales revenue (billion HUF)	79	164
Number of employess	10 887	15 332

### Summary

Sports organizations operate in different forms in Hungary. One can find both for-profit and nonprofit organizations. The sports association is the most widespread form in the field of sports services. What is interesting about the organizational system is that the federations also function as special sports associations. One can meet sports organizations run as companies in team sports. The research involved the analysis of accounting and financial reports for several types of organizations. The common point for all of them was a clear increase in revenue and assets. Examination of the structure of revenue revealed that the share of crowdfunding, direct state aid in particular, has increased.

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