

The influence of public funding on the strategies and performance of non-profit basketball clubs from South-Eastern Europe

Igor Ivašković & Tomaž Čater

To cite this article: Igor Ivašković & Tomaž Čater (2018) The influence of public funding on the strategies and performance of non-profit basketball clubs from South-Eastern Europe, Economic Research-Ekonomska Istraživanja, 31:1, 796-810, DOI: [10.1080/1331677X.2018.1456347](https://doi.org/10.1080/1331677X.2018.1456347)

To link to this article: <https://doi.org/10.1080/1331677X.2018.1456347>



© 2018 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group



Published online: 04 Apr 2018.



Submit your article to this journal [↗](#)



Article views: 206



View Crossmark data [↗](#)

The influence of public funding on the strategies and performance of non-profit basketball clubs from South-Eastern Europe

Igor Ivašković  and Tomaž Čater

Faculty of Economics, University of Ljubljana, Ljubljana, Slovenia

ABSTRACT

The purpose of this study is to examine how private funding affects non-profit sport clubs in terms of their strategic decisions and organisational performance. Data for the study were collected from a survey of 73 basketball clubs' managers from four South-east European countries. Explorative factor analysis and structural equation modelling were employed. The results show that stronger influence of public institutions, reflected in a higher proportion of clubs' funding from public resources, affects clubs' strategies so that clubs with a greater percentage of public funds: (1) emphasise risk reduction more than fast results; (2) emphasise local community aims more than top sport results; and (3) emphasise organisational growth more than cost reduction. The study empirically verified the thesis that clubs with a larger proportion of public funds are less successful in terms of sport and financial results, which is partially a consequence of their different strategic focus. The study offers a better understanding of the relationships among the structure of clubs' funding and its direct (clubs' strategic conduct) and indirect (clubs' performance) consequences.

ARTICLE HISTORY

Received 28 October 2015
Accepted 16 August 2017

KEYWORDS

Non-profit sport club;
basketball club; funding;
strategy; performance

JEL CLASSIFICATIONS

M10; H40; L30

1. Introduction

According to the European Commission, sport clubs in Europe should offer the opportunity to participate in sports at a local level and thus promote the 'sport for all' idea (Petry, Steinbach, & Tokarski, 2004). Therefore, unlike their North American counterparts, European sport clubs are traditionally closer to the non-profit sector, and in some countries they are not permitted to be organised as companies (Gammelsæter & Jakobsen, 2008). In transition countries even highly professional sport clubs that compete at the top level operate as non-profit organisations, which is a consequence of their unique historical development. During the time of centrally planned economies, clubs were formed by national sport associations and were thus all declared as non-profit and amateur organisations. The collapse of communist regimes in Eastern Europe stimulated the process of the professionalisation of

CONTACT Igor Ivašković  igor.ivaskovic@ef.uni-lj.si

© 2018 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group.

This is an Open Access article distributed under the terms of the Creative Commons Attribution License (<http://creativecommons.org/licenses/by/4.0/>), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

the best sport clubs, but in most cases (regardless of the size of clubs' budgets, the degree of their professionalisation, level of competition and other parameters) they have retained their non-profit legal status. Consequently, the budgets of sport clubs in that area still consist of a significantly larger proportion of funds from public institutions. Since the latter usually have different or even opposing interests than private sponsors, this situation can cause numerous difficulties for the management of non-profit sport clubs. Therefore, this study's purpose is to improve our understanding of the takeover processes of non-profit sport clubs by private sponsors. In particular, we seek answers to the following two questions:

1. Does the stronger involvement of public institutions in non-profit sport clubs influence their strategies?
2. How does this stronger involvement of public institutions in non-profit sport clubs influence the clubs' organisational performance?

The contribution of the study is both theoretical and practical. Theoretically, the study offers a better understanding of the relationships among the structure of clubs' funding and its direct (clubs' strategic conduct) and indirect (clubs' performance) consequences, which is necessary to bring the discussion on the justifiability of profit versus non-profit legal forms of sport clubs and their financing to a higher level. From the practical point of view, the results are useful for managers in sport clubs to help anticipate the private interests and reduce the potential for conflict between public donors and private sponsors, which could have a negative effect on the sport clubs' development and performance.

2. Theoretical Framework and Hypotheses

The majority of sport clubs from South-east Europe still operate as non-profit organisations regardless of the fact that the current legislation in some countries offers various legal possibilities. For instance, Slovenian legislation from 1995 and 2006 allowed the transformation from a non-profit to a for-profit status form (Ilešič, 2004), but in practice this was usually prevented by national federations. This is also the case in the field of basketball where clubs, in order to compete in national leagues, have to be members of the basketball federation whose statute explicitly excludes all for-profit organisations. Thus, sport managers in those clubs are not in the position to choose the legal structure, which has been confirmed to significantly affect sponsorship income (Dietl & Weingärtner, 2011; Wicker, Weingärtner, Breuer, & Dietl, 2012). Croatia has somewhat more sophisticated sport legislation, but paradoxically cases from practice have shown that the transformation into a for-profit legal form only takes place when a sport club is on the edge of bankruptcy, while clubs with a healthy financial background retain their non-profit status. Similar situations are seen in Bosnia and Herzegovina and in Serbia. Thus, the budgets of those sport clubs, unlike the budgets of their counterparts from Western Europe, still consist of a significantly higher proportion of funds from public institutions, as well as from funds from companies that are partly or fully owned by the state or municipality (Škorić, Bartoluci, & Čustonja, 2012). On one hand, the easier access to public funds enables clubs' managers to conduct a wider spectrum of activities, but at the same time it could sow seeds of conflict between public and private investors regarding what the clubs' objectives and strategies should be. It is therefore understandable why the 'evergreen' discussion of whether sport clubs should be entitled to non-profit status and public funding is still very relevant.

Critics of non-profit sport clubs support the idea of transforming clubs into profit legal forms and advocate the full transparency of ownership (Bergant-Rakočević, 2008). They claim that those clubs are in fact not established with a view to helping vulnerable segments of the population so they should not be allowed to compete for funds, which should be spent for charitable purposes. Those critics also support Daft's (1998) warning that the ambition of sport clubs' managers to satisfy some stakeholders may lead to the alienation of others who should, in fact, be in the focus of the organisational mission. On the other hand, the main argument for preserving sport clubs' non-profit legal forms are the positive externalities, mostly the proliferation of sport values among youth, which is one of the keys to the development of a healthy and prosperous society. In accordance with the principles of economic logic, sporting activity should be financed by those who benefit from it. If positive returns are both private and public, then the funding should come from both sources. This group also denies the claim that stakeholder groups, which behave like suppliers of capital and are only interested in returns on their investments, have a significant influence on non-profit sport clubs' strategies. At first sight, the arguments of both sides are well grounded, but obviously they have different starting points, which stimulated us to conduct empirical research on how the proportion of public funds affects sport clubs' strategies and performance.

A club's budgeting is a process which probably reflects the club's strategic priorities to the greatest extent, and consequently presents the club's management with key strategic dilemmas (Baroncelli & Lago, 2006; Kern, Schwarzmann, & Wiedenegger, 2012). With respect to how these dilemmas are resolved, Keller (2008) divides sports clubs into those which pursue a more sustainable strategy and those with a strategy of achieving top sports results. While the first group of clubs invests its financial surpluses in the development of sport infrastructure, young athletes and the local community, the other group invests in the acquisition of new athletes with better physical and tactical skills. The line between both groups of sport clubs is comparatively clear in the U.S.A., where clubs in professional leagues follow the aim of sport results, while amateur organisations are more inclined to a sustainable strategy. However, determining the strategic orientation of a European non-profit sport club is much more complex because non-profits which engage professionals as well as volunteers have a much wider spectrum of potential purposes (Cuskelly, 2004). In the context of this study, we propose the following three dimensions of sport clubs' strategic orientation and provide the argumentation for each of them: (1) reducing costs versus pursuing fast growth; (2) pursuing top sport results versus developing the local community; and (3) achieving fast results versus lowering the risk.

- (1) Cost reduction versus growth. This strategic issue reflects two dimensions of Tan and Litschert's (1994) segmentation of strategies, namely the decision to attack or defend, and the degree of proactivity. A more attacking and proactive leadership tries to improve and enlarge the scope of the organisation's operations, whereas those with a lower degree of proactivity try to prevent any changes and do not engage in new projects. This dilemma is also partially in line with Keller's (2008) segmentation of sport clubs, where a 'cost reduction' decision reflects conservative leadership and those with top sport ambitions are usually more inclined to 'growth' strategies. Thus, the ambition to reduce costs is usually in conflict with the traditional understanding of growth that refers to enlarging the membership

or increasing the scope of organisational activities. In this context, managers of sport clubs encounter the dilemma of enlarging membership and consequently increasing activities on one side, and a conservative financial policy on the other. The growth of the organisation holds the potential to increase organisational revenues, but this implies investments in the club's infrastructure, marketing activities for attracting young people, investment in coaching and administrative staff, etc., which are all in conflict with the cost-reduction ambition.

- (2) Top sport results versus development of the local community. For most sport management scholars, this is the crucial dilemma of all sports clubs (Breitbarth & Harris, 2008; Kern et al., 2012). It is a consequence of combining the concept of 'sport' that implies competition and the sport result as a value in itself (Ibsen, 1999), and the concept of 'club' which represents an organisation integrated into the local community. It may seem that those ambitions are not in contradiction, but sooner or later a club's management has to decide whether the club is going to emphasise more the involvement of the local population, or strive to obtain the best skills and knowledge on international athlete markets (Taylor, Doherty, & McGraw, 2008, p. 28). While the latter usually demand higher financial compensation, locals are more inclined to volunteer in a sport club (Dawson & Downward, 2013; Hoye, Cuskelly, Taylor, & Darcy, 2008).
- (3) Fast results versus lower risk. A shorter period of expected return and higher expected profitability are usually beneficial for investors. However, this usually also implies a higher degree of risk. In this context, clubs that strive for top sport results have to acquire athletes with better capabilities. The only quick way to do that is to obtain them on international markets for athletes. This usually implies a bigger financial investment and thus also a bigger risk of failure. Although this issue may seem to overlap with the previous strategic dimension since the decision to achieve results fast usually implies engaging athletes from the international market, a distinction between them does exist in practice. While the key to the second strategic dilemma is deciding about the area of the club's operations, the third is more about the way those operations are conducted and the aggressiveness of the club's strategy (Tan & Litschert, 1994).

The resource-based view suggests that the organisation is not self-sufficient and needs support from other subjects in the organisational environment (Pfeffer & Salancik, 1978). In return, those subjects require certain organisational activities, which results in a relationship of dependence where the external factors form a system of indirect supervision and guidance of the organisational management. In this context, it is particularly interesting to discover how the balance between public and private funds affects clubs' strategic decisions and their performance. Previous findings suggest that managers of private enterprises are generally more proactive, more innovative, and take greater risks than their public counterparts (Cuervo & Villalonga, 2000; Megginson, Nash, & van Randenborgh, 1994; Zahra, Neubaum, & Huse, 2000). It seems that managers in public organisations do business according to established routines and are reluctant to adopt aggressive strategies (Brouthers, Gelderman, & Arens, 2007). Moreover, public organisations usually do not experience the pressure to achieve fast results like private companies (Lioukas, Bourantas, & Papadakis, 1993; Whitley & Czaban, 1998). On the other side, the managers of private enterprises are

more flexible and their reactions have to be quicker since they carry the burden of potential loss, which also increases their motivation to be more efficient (De Castro, Dale Meyer, Strong, & Uhlenbruck, 1996). In the context of sport clubs, various studies looked at the financing of sport organisations and specifically at the role and effects of public funding. Some authors claimed that clubs are autonomous and therefore might not experience the effects of external stakeholders' pressure (Johnston, 2013; Vos, Wicker, Breuer, & Scheerder, 2013; Vos et al., 2011). However, some of those studies were conducted only among voluntary sport clubs (Vos et al., 2011, 2013) or were analysing only national sport organisations (Johnston, 2013). On the other hand, in clubs with a professional or mixed structure, the influence of stakeholders is not always direct, but rather indirect, similar to the influence of main sponsors of political campaigns on the elected politicians. Moreover, some of the latest findings show that resource problems among clubs are not necessarily due to poor club management, since external (community) factors significantly affect the situation in sport clubs (Wicker & Breuer, 2015). Therefore, we challenge the thesis of autonomous clubs' leaderships and assume that those clubs which are predominantly privately funded (and thus more strongly influenced by private owners' interests) emphasise fast results and cost reductions more than those clubs whose budgets chiefly consist of public funds. Consequently, privately funded clubs should attribute greater importance to sports results, which are the key lever for obtaining more private funds (Estrin, 1994; Megginson et al., 1994). Conversely, a greater percentage of public funds should have the opposite effect, so we posit the following hypothesis and its derivations.

Hypothesis 1. *The perceived structure of budgets from the aspect of public and private funds directly influences non-profit sport clubs' strategic focus, so that:*

Hypothesis 1a. *Clubs with a greater share of public funds emphasise risk reduction more than fast results.*

Hypothesis 1b. *Clubs with a greater share of public funds emphasise local community goals more than top sport results.*

Hypothesis 1c. *Clubs with a greater share of public funds emphasise organisational growth more than cost reduction.*

The literature review for the last three decades offers plenty of evidence that differences in strategic decisions also lead to different organisational outcomes (Berman, Wicks, Kotha, & Jones, 1999; Pearce, Freeman, & Robinson, 1987; Prajogo & Sohal, 2006). For example, Dess and Davis (1984) claim that firms that identified with at least one generic strategy according to Porter (1980) outperformed firms identified as 'stuck in the middle'. In the context of non-profit sport clubs, there are numerous strategic possibilities where clubs' managers mostly accept decisions which are in line with clubs' most important stakeholders. Consistent with the hypotheses posited above, the stronger influence of private stakeholders should be reflected in the pursuit of top sports results, which are the key leverage for attracting more private sponsors (Demir & Söderman, 2015). Top results in the European context of sport competitions also enable the promotion of more successful clubs to higher level competition. The positive consequence of that is the increased value of the professional athletes within such clubs, while the negative effect should manifest as decreased interest in local community aims. As we predict, private sponsors are more inclined to put clubs' managers under pressure to achieve fast results. Consequently, the clubs' managers are indirectly forced to accept strategies that allow higher yields and are more cost-efficient (Berg,

Lin, & Tsaplin, 2005) which, according to some findings, produces better financial results (Naman & Slevin, 1993). In contrast, organisations with a larger amount of public funds, which is followed by the greater interference of public institutions, according to Brouthers et al. (2007) achieve a poorer performance. As a result, we propose a second hypothesis with three derived sub-hypotheses.

Hypothesis 2. *The influence of the clubs' budget structure on their organisational performance is mediated by their strategic focus, so that:*

Hypothesis 2a. *Emphasising risk reduction more than fast results decreases organisational performance.*

Hypothesis 2b. *Emphasising local community goals more than top sport results decreases organisational performance.*

Hypothesis 2c. *Emphasising organisational growth more than cost reduction decreases organisational performance.*

3. Methods

This research was performed among men's basketball clubs in Bosnia and Herzegovina, Croatia, Serbia, and Slovenia. Although only one branch of the sport industry, according to the size of the organisations and their financial budgets basketball clubs can be considered as representative of other non-profit sport clubs from this part of Europe. Indeed, basketball has a long tradition and glorious history in those ex-Yugoslav countries. National teams and clubs have won numerous trophies in top competitions, both before and after the break-up of Yugoslavia. These sport achievements are even more admirable if we know that those basketball clubs are relatively small organisations, usually with fewer than 50 club members (without children who participate in youth basketball schools, the average club in this research had 22.1 members) and an average budget of EUR 0.4 million in the 2013/2014 season. Even after the disintegration of Yugoslavia, cooperation among basketball clubs in the area under study remained strong. Clubs' managers realised they shared the same problems, primarily too small markets and thus poor competition within the national basketball leagues, so they formed the regional Adriatic Basketball League (A.B.L.). Regardless of the somewhat different development of the legal environment in the studied countries, all basketball clubs have retained their non-profit status.

We used the clubs' presidents (president of the management board or president of the board of directors) as our main source of information because they usually have the best overview of their clubs' strategic behaviour. We contacted 249 of them and invited them to participate in the research. Participation was completely voluntary and anonymous. The data collection took place through the whole 2013/2014 season, and never immediately after a competition in order to avoid competition-specific biases. Representing a response rate of 29.3%, 73 presidents were willing to cooperate. The sample consisted of 27 (out of 56; a 48.2% response rate) first-division clubs (the highest national competition level), 31 (out of 73; a 42.5% response rate) second-division clubs and 15 (out of 120; a 12.5% response rate) clubs from the third level of national competitions in selected countries. Of the 27 first-division clubs, nine (out of 11; an 81.8% response rate) also participated in international competitions (A.B.L., EuroChallenge cup, Eurocup, or Euroleague). Only among third-division clubs was the response rate relatively low and, therefore, we should

be conservative when drawing conclusions about this segment of clubs. The participants had on average 4.87 (SD = 3.70) years of management experience in the current club and on average had held their presidential position for 2.53 (SD = 1.36) years.

For the purpose of this research we took the perceived share of public and private funds regardless of the fact that European clubs are also financed from other sources (Wicker & Breuer, 2011). The empirical findings show that the latter are insignificant in clubs from this specific environment (Erčulj, 2007). The structure of a club's budget in terms of the ratio between public and private sources indicates, regardless of the actual absolute amount of financial resources, the relative influence of the two stakeholder groups. While the relative share of public funds in a club budget determines the position (power and potential impact) of municipal, state and E.U. institutions, the share of private funds implies the potential influence of privately owned entities. The respondents identified the relationship between public and private funding sources on a 7-point Likert scale, where (1) denoted that the club was completely financed with public sources, and (7) denoted that the club was entirely funded with private sources. The reason for using a Likert scale instead of the actual ratio between public and private sources is twofold. First, the fact that some sponsors or donors are partly private and partly public organisations causes difficulties in obtaining objective information on the ratio. Second, many managers were reluctant to share the information about their donors and sponsors so we had to rely on their estimation (i.e., using a Likert scale), otherwise our sample would have been much smaller. However, in those clubs where we could obtain the actual ratios as a percentage (37 clubs), the correlation between the ratios and estimations using the Likert scale was relatively high and statistically significant ($r = .75$; $p < .01$). This high correlation shows that the managers' estimations can be used as a proxy for the actual ratios of public versus private funding in the studied clubs.

The respondents had to define how their club resolves three key strategic dilemmas. In other words, they had to answer which aim is more important for the club, and to what extent: (1) top sport results or development of the local community; (2) fast results or lower risk; and (3) cost reduction or organisational growth. This was made on a 7-point Likert scale where (1) means that the club gives all its attention to the first aim and completely neglects the second one, (4) means that the club attributes equal importance to both strategic aims, and (7) means that the club gives all its attention to the second aim and completely neglects the first one.

As Thiel and Mayer (2009) stated, the absence of explicit organisational objectives makes it very difficult to validate success in sport clubs. Therefore, for the purpose of this research, we obtained a list of sport clubs' objectives from a group of 12 managers, each with at least 5 years of work experience in basketball clubs. Every manager was asked to write down the five most important organisational goals. In addition to the normative objectives, each manager was also asked to identify five more goals which in their experience are actually pursued in basketball clubs. Thus, each of the 12 experts identified up to 10 organisational aims. Finally, after combining similar answers we obtained the following 15 objectives: (1) promotion of the municipality; (2) the development of infrastructure in the local environment; (3) private sponsor promotion; (4) attracting spectators to matches; (5) the development of athletes for national selections; (6) a surplus of revenues over expenses; (7) the development of top basketball players; (8) sport results of the first team; (9) budget growth; (10) increasing athletes' market value; (11) reducing costs; (12) increasing the number of club members; (13) involvement of the local population in the club's activities; (14) encouraging the local

population to do sports; and (15) the sport results of junior teams. Respondents evaluated the performance of each club for each of these 15 organisational aims on a 7-point Likert scale, anchored at the extremes (1) 'very poor performance' and (7) 'the best performance in comparison with all listed fields/objectives'.

The data processing started with classical statistical analysis and an analysis of the differences between groups of clubs from different quality levels. Then the measure of performance was obtained by employing explorative factor analysis (E.F.A.), which helped us reduce the number of performance variables. Finally, structural equation modelling (S.E.M.) using maximum likelihood estimation in IBM AMOS 21 was performed in order to evaluate the effect of public/private financing on the strategic focus and organisational performance of the sport clubs.

4. Results

Table 1 presents the average values of responses regarding the three key strategic issues. It seems that the clubs at the highest level scored lower values for all three items, meaning that the managers of those clubs emphasise cost reduction more than growth objectives, top sport results more than local community aims, and fast results more than lower risk. In contrast, clubs from the second and lower divisions were more focused on growth, development of the local community and the long-term aims with lower risk. ANOVA confirmed that the differences were significant for all three strategic aspects with a moderate real difference (strategic dimension 1 $\rightarrow F = 6.127$; $p = .004$; $ES = .149$; strategic dimension 2 $\rightarrow F = 10.920$, $p = .000$; $ES = .238$; strategic dimension 3 $\rightarrow F = 7.432$; $p = .001$; $ES = .175$). A t -test also confirmed statistically significant differences between the sub-segment of top clubs which participate in international competitions and other clubs (strategic dimension 1 $\rightarrow t = -5.792$; $p = .000$; $ES = .321$; strategic dimension 2 $\rightarrow t = -8.579$; $p = .000$; $ES = .509$; strategic dimension 3 $\rightarrow t = -12.785$, $p = .000$; $ES = .374$), while none of these differences were confirmed between the second- and lower division clubs.

The results show that higher division clubs obtain a larger percentage of private funds ($M_{ABA} = 5.44$; $M_{1st} = 5.22$; $M_{2nd} = 3.32$; $M_{3rd} = 3.60$). Obviously, the budgets of first-division clubs consist of more private than public funds, while the average of the second- and third-division clubs was below the threshold of 4, which denotes an equal percentage of public and private funds. Thus, on average they obtain the majority of their funds from public institutions, which, however, does not imply that they receive a larger absolute amount

Table 1. Strategic focus differences – mean values reported on a 7-point Likert scale.

Level of competition	Cost reductions vs. organisational growth	Top sport results vs. development of the local community	Fast results vs. lower risk
ABA ($n = 9$)	1.78	1.56	3.22
1. ($n = 27$)	3.26	3.78	4.85
2. ($n = 31$)	4.45	5.35	5.90
3. ($n = 15$)	4.40	5.80	6.40
All ($n = 73$)	4.00	4.86	5.62

Note: A lower value implies a bigger emphasis on the first organisational aim (cost reduction, top sport results and fast results), while a higher value means that clubs attribute more importance to the second aim (organisational growth, local community objectives and lower risk).

Source: Authors.

Table 2. Results of the factor analysis for the performance variables.

Component	Factor	
	1	2
Promotion of the municipality	-.546	.699
Increasing the number of club members	-.643	.502
Involvement of the local population in the club's activities	-.808	.420
Encouraging the local population to do sports	-.696	.612
Development of infrastructure in the local environment	-.618	.424
Sport results of junior teams		.603
Attracting spectators to the matches	.351	.541
Development of athletes for national selections	.509	.668
Development of top basketball players	.748	.388
Reducing the costs	.762	.347
Private sponsor promotion	.725	
Surplus of revenues over expenses	.859	
Sport results of the first team	.859	
Budget growth	.713	
Increasing athletes' market value	.857	

Note: The factors explain 66.9% of the variance.

Source: Authors.

of public funds than higher division clubs. The ANOVA results confirmed statistically significant differences among groups of clubs regarding their public/private funds perceived ratio ($F = 17.798$; $p = .000$; $ES = .337$). However, again this difference was not confirmed between the second- and third-division clubs ($LSD \rightarrow p = .486$; Tamhane $\rightarrow p = .872$). At the same time, a t -test discovered a statistically significant difference between top clubs which participated in international competitions and the others (Mean difference = 1.553; $t = 3.018$; $p = .004$; $ES = .114$).

The performance variable was obtained by conducting E.F.A. on the performance responses. E.F.A. was statistically significant (Bartlett test: $\chi^2(105) = 869.361$, $p = .000$, $KMO = .796$, all $MSA > .5$) and resulted in two relatively clean factors in the first iteration. The first factor mostly included financial and top sport results variables, while the second factor was more related to non-profit and local community measures of performance (see Table 2). For the purpose of this research, we used the first factor ('sport and financial performance') because this factor was found to correlate significantly with the clubs' general performance ($r = .342$, $p < .01$) perception expressed by athletes ($n = 559$) within the observed clubs. At the same time, this perception did not correlate significantly with the second factor.

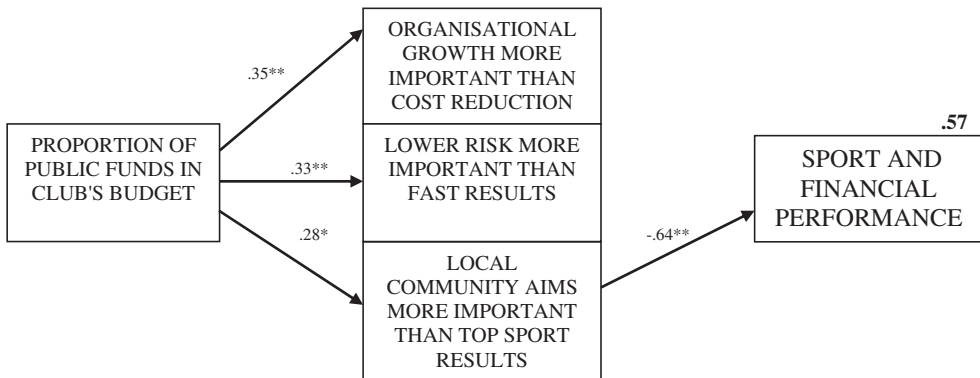
In the next step, we conducted the so-called common latent factor test (also known as Harman's single-factor test) recommended by Podsakoff, MacKenzie, Lee, and Podsakoff (2003). The new factor was included in the model and all variables were allowed to load onto one general factor. In this case, the model exhibited an extremely poor fit, which indicates that a single factor did not account for the majority of the variance in our data ($CFI < .5$, $RMSEA > .2$).

The hypothesised model was then tested. The results in Table 3 showed that the initial model did not fit data very well. Non-normed fit index was below the threshold of .9, while RMSEA was above .10. In line with the guidelines of Bowen and Guo (2011, p. 162) and McCoach (2003), we tried to find an alternative model which would improve the fit. Since the first test showed that two causal relationships were not found to be statistically significant at the level of .05 (namely the decision to emphasise cost reduction more than

Table 3. Structural equation model results.

Model	$\chi^2(df)$	p	CFI	NFI	NNFI	RMSEA
Initial/Hypothesised	2.656(1)	.118	.98	.97	.79	.12
Final model	3.655(3)	.316	.98	.97	.90	.05

Note: χ^2 = chi square; df = degrees of freedom; CFI = comparative fit index; NFI = normed fit index; NNFI = non-normed fit index; RMSEA = root mean square error of approximation.
Source: Authors.

**Figure 1.** S.E.M. results for Model 1. Source: Authors.

$p < .01$; * $p < .05$.

growth ($\beta = .07$, $p = .47$) and attributing more importance to fast results than to lower risk ($\beta = .10$, $p = .33$) did not affect the performance variable), we removed those two paths from the model and repeated the S.E.M. test. The latter resulted in a substantial improvement regarding all three parameters. In addition, we also performed S.E.M. for all other alternative models of the relationship between the observed variables and could not find one which would show a better fit with our data. It was especially important to test the causality between the three strategic choices and the perceived share of public funding. Obviously, some reverse causality exists between the strategic decision to stimulate organisational growth more than to be focused on cost reduction ($\beta = .24$, $p = .03$), while the other two strategic issues did not show a statistically significant influence on the share of public funding. This can be logically explained by the fact that public institutions and state-owned companies to a greater extent financially support those clubs which care about including the community in their activities rather than reducing costs. However, only 9% of the variance in the perceived share of public funding is explained by the way the three strategic issues are resolved. Moreover, the fit indices in that case were much worse than in the model depicted in Figure 1. Thus, the results suggest that the latter is the best reflection of the relationships between the observed variables for this data-set. The figure displays standardised parameter estimates, statistical significance tests for each path, and squared multiple correlations for the dependent variables.

Our findings undermined some of our (sub)hypotheses, but simultaneously provided support for some of the predicted causal relationships. In order to verify the indicated mediation path, we conducted an additional mediation test. When there is full mediation in the relationship X-M-Y (X is the predictor, M is the mediator and Y is the dependent

variable), all paths (X-M, M-Y and X-Y) are significant. The addition of the X-M and X-Y paths to the constraint model should not improve the fit (Mach, Dolan, & Tzafrir, 2010). On the other hand, when there is only an indirect mediation effect, the direct path X-Y is not significant. After analysis of the potential mediation relationship in the final model, we checked its significance with Sobel's test. The latter revealed an indirect path between 'proportion of public funds in a club's budget' and 'sport and financial results' through emphasising local community aims more than sport results, which plays the role of a mediator (Sobel test: $z = 2.32$, $p = .02$).

5. Discussion and conclusions

The purpose of this research was to develop and test a model of how public funding affects three key strategic decisions, and through them clubs' sport and financial performance. The ways of resolving the three key strategic dilemmas were therefore treated as mediators in our model. The results confirm the hypothesis that the decision to emphasise local community aims more than sport results plays the role of a mediator between public funding and organisational performance. At the same time, we did not find any proof that the other two strategic decisions have a significant impact on performance, although they are affected by the perceived structure of a sport club's budget in terms of the ratio between public and private funding.

The majority of basketball clubs from South-east Europe still function as non-profit organisations regardless of the fact that the current legislation in the observed countries offers various legal possibilities in the field of sport organisations. However, with the change in political system, sports clubs were faced with modifications to their budget structures. This happened because of the privatisation of companies which had been providing financial sources to sports clubs. Our results show that, in order to remain competitive at the international level, the top clubs were forced to seek new funding sources from mostly privately owned firms, while the role of government and other public institutions diminished. At the same time, clubs at lower levels of competition have not gone through this process, as public institutions have retained a significant influence over the clubs' management.

This study confirms that non-profit sports clubs differ significantly regarding three key strategic issues. Clubs with a higher proportion of private funds emphasise achieving top sports results more than development of the local environment and other local community aims. They also give greater importance to cost reduction than to the growth aims, put emphasis on fast results and, as part of that, are prepared to accept a higher degree of risk than clubs which have a larger percentage of public funds. All of this is consistent with the thesis that private organisations are more market-oriented, more cost-effective, use more aggressive strategies, are more proactive and less risk-averse.

Further, this study demonstrates that a greater proportion of public funds in a sport club's budget negatively impacts the club's top sport and financial performance. That effect is mediated by the strategic decision to emphasise local community aims more than top sport achievement, and accounts for a relatively large percentage of variation in the dependent variable (57%). These results are consistent with our assumptions that the growing influence of private stakeholders (or weaker relative influence of public institutions) increases the possibility of financial success, mostly due to their desire to place sport and financial results higher up the hierarchy of a club's aims. On the other hand, somewhat surprising

is the result that emphasising fast results more than lower risk (and vice versa), and an inclination to stimulate organisational growth rather than reduce costs (and vice versa), do not have a significant impact on the sport and financial performance of a sport club. This leads us to the conclusion that the crucial strategic issue here is the question of whether to focus on top sport achievements or to emphasise local community aims as the purpose of a club's existence. At the same time, although increased public funding leads to emphasising organisational growth (at the expense of cost reduction) and risk reduction (at the expense of fast results), this seems not to affect the final outcome from the perspective of sport and financial results.

The main contribution of this study is the theoretical argumentation and empirical confirmation of how public funding affects key strategic issues and the organisational performance of non-profit sports clubs. From this aspect we followed the recommendations of Paauwe and Boselie (2008) who stressed that strategic alternatives cannot be always placed in the context of a differentiation, low-cost or niche focus, but it is sometimes necessary to modify the classification as a result of the specific circumstances. This study empirically supported the thesis that the share of public funds in clubs' budgets affects their strategic focuses. Moreover, it also indirectly corroborated that it affects performance, confirming that even non-profit organisations can change their behaviour and become more like their profit counterparts if the percentage of private funds, and consequently power of private sponsors, increases.

Several practical implications arise from this study. The results clearly show that higher division clubs obtain a bigger percentage of private funds than lower division clubs. This may help policymakers in transition countries rethink the current situation in the area of competitive team sports. By analysing the differences between clubs at different quality levels this study may be beneficial when deciding where and how to draw the line between non-profit and profit sport clubs. The results also clearly indicate that the management of top sport clubs which compete in international competitions is inclined to cost reduction rather than growth, and to sport results more than local community aims. It is obvious from the results of this study that changes in the perceived ratio between private and public funds also indicate changes in clubs' strategic focus. A higher proportion of private funds causes a change in the direction of the desire for top sport and financial results, while a larger proportion of public funds causes the opposite effect. Therefore, it would be necessary to adopt a new legal framework that supports the conversion of the sport clubs legal status that will ensure that public funds are distributed among those organisations which are primarily led by non-profit motives. Finally, this study identified the key strategic dilemmas and offered a new managerial tool to facilitate the decision-making process; in particular, it may be useful to help executives avoid becoming entangled in a vicious cycle of conflicting strategic decisions.

The biggest limitation of our study is the use of subjective survey-based data. Yet in our case this was unavoidable. Among third-division clubs the response rate was relatively low and, therefore, the results concerning this segment of clubs are less reliable. Further, data were only collected among basketball clubs in four countries with a similar historical background, which may hamper the generalisation of the results. We therefore recommend further research on sport clubs from different environments and from other sport branches. However, our context-specific findings should be valuable for scholars searching for ways and means to establish more effective sport systems in transition countries.

Disclosure statement

No potential conflict of interest was reported by the authors.

ORCID

Igor Ivašković  <http://orcid.org/0000-0002-3474-007X>

References

- Baroncelli, A., & Lago, U. (2006). Italian football. *Journal of Sport Economics*, 7(1), 13–28. doi:10.1177/1527002505282863
- Berg, S., Lin, C., & Tsaplin, V. (2005). Regulation of state-owned and privatized utilities: Ukraine electricity distribution company performance. *Journal of Regulatory Economics*, 28(3), 259–287. doi:10.1007/s11149-005-3957-z
- Bergant-Rakočević, V. (Ed.). (2008). *Šport & pravo*. Ljubljana: Gospodarski vestnik.
- Berman, S. L., Wicks, A. C., Kotha, S., & Jones, T. M. (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *Academy of Management Journal*, 42(5), 488–506. doi:10.2307/256972
- Bowen, N. K., & Guo, S. (2011). *Structural equation modelling (pocket guides to social work research methods)*. Oxford: University Press.
- Breitbarth, T., & Harris, P. (2008). The role of corporate social responsibility in the football business: Towards the development of a conceptual model. *European Sport Management Quarterly*, 8(2), 179–206. doi:10.1080/16184740802024484
- Brouthers, K. D., Gelderman, M., & Arens, P. (2007). The influence of ownership on performance: Stakeholder and strategic contingency perspectives. *Schmalenbach Business Review*, 59(3), 225–242. Retrieved from: http://www.sbr-online.de/pdfarchive/einzelne_pdf/sbr_2007_july-225-242.pdf
- Cuervo, A., & Villalonga, B. (2000). Explaining the variance in the performance effects of privatisation. *The Academy of Management Review*, 25(3), 581–590. doi:10.2307/259311
- Cuskelly, G. (2004). Volunteer retention in community sport organisations. *European Sport Management Quarterly*, 4(2), 59–76. doi:10.1080/16184740408737469
- Daft, R. L. (1998). *Organization theory and design* (6th ed.). Cincinnati, OH: South-Western College Publishing.
- Dawson, P., & Downward, P. (2013). The relationship between participation in sport and sport volunteering: An economic analysis. *International Journal of Sport Finance*, 8(1), 75–92. Retrieved from: <http://epay.wvsto.com/WVU/WVFITSportBooks/IJSFBack-Issue-2013-C164.aspx?p=1>
- De Castro, J. O., Dale Meyer, G. D., Strong, K. C., & Uhlenbruck, N. (1996). Government objectives and organizational characteristics: A stakeholder view of privatization effectiveness. *The International Journal of Organizational Analysis*, 4(4), 373–392. doi:10.1108/eb028857
- Demir, R., & Söderman, S. (2015). Strategic sponsoring in professional sport: A review and conceptualization. *European Sport Management Quarterly*, 15(3), 271–300. doi:10.1080/16184742.2015.1042000
- Dess, G. G., & Davis, P. S. (1984). Porter's (1980) generic strategies as determinants of strategic group membership and organizational performance. *Academy of Management Journal*, 27(3), 467–488. doi:10.2307/256040
- Dietl, H., & Weingärtner, C. (2011). The effect of professional football clubs' legal structure on sponsoring revenue. *Journal of Sponsorship*, 4(4), 377–390.
- Erčulj, F. (2007). *Povzetek izsledkov ankete o organiziranosti in strokovni dejavnosti košarkarskih društev v Sloveniji*. Retrieved from: www.kzs-zveza.si/kzs/index.php?x=4&xy=332
- Estrin, S. (1994). *Privatization in Central and Eastern Europe*. London, U.K.: Longman.
- Gammelsæter, H., & Jakobsen, S.-E. (2008). Models of organization in norwegian professional soccer. *European Sport Management Quarterly*, 8(1), 1–25. doi:10.1080/16184740701814365

- Hoye, R., Cuskelly, G., Taylor, T., & Darcy, S. (2008). Volunteer motives and retention in community sport: A study of Australian rugby clubs. *Australian Journal on Volunteering*, 13(2), 40–48. Retrieved from: http://www.academia.edu/281666/Volunteer_Motives_and_Retention_in_Community_Sport_A_study_of_Australian_rugby_clubs
- Ibsen, B. (1999). Structure and development of sport organisations in Denmark. In K. Heinemann (Ed.), *Sports Clubs in Various European Countries* (pp. 241–267). Schorndorf: Hofmann.
- Ilešić, M. (2004). Pravni status športnih organizacij. *Podjetje in delo*, 30(6–7), 1639–1644.
- Johnston, M. (2013). *Mimetic, coercive and normative influences and the decision of national sport organizations to bid for World champions events*. Master of business thesis. Auckland: University of Technology.
- Keller, K. L. (2008). *Strategic brand management. Building, measuring, and managing brand equity* (3rd ed.). Upper Saddle River (NJ): Pearson.
- Kern, A., Schwarzmann, M., & Wiedenegger, A. (2012). Measuring the efficiency of English premier league football: A two-stage data envelopment analysis approach. *Sport, Business and Management: An International Journal*, 2(3), 177–195. doi:10.1108/20426781211261502
- Lioukas, S., Bourantas, D., & Papadakis, V. (1993). Managerial autonomy of state-owned enterprises: Determining factors. *Organization Science*, 4(4), 645–666. doi:10.1287/orsc.4.4.645
- Mach, M., Dolan, S., & Tzafirir, S. (2010). The differential effect of team members' trust on team performance: The mediation role of team cohesion. *Journal of Occupational and Organizational Psychology*, 83(3), 771–794. doi:10.1348/096317909X473903
- McCoach, D. B. (2003). SEM isn't just the schoolwide enrichment model anymore: structural equation modelling (SEM) in gifted education. *Journal for the Education of the Gifted*, 27(1), 36–61. Retrieved from: <http://files.eric.ed.gov/fulltext/EJ787904.pdf>
- Meggison, W. L., Nash, R. C., & Mathias, R. (1994). The financial and operating performance of newly privatized firms. *The Journal of Finance*, 49(2), 403–452. doi:10.1111/j.1540-6261.1994.tb05147.x
- Naman, J. L., & Selvin, D. P. (1993). Entrepreneurship and the concept of fit: A model and empirical tests. *Strategic Management Journal*, 14(2), 137–153. doi:10.1002/smj.4250140205
- Pauwue, J., & Boselie, P. (2008). *HRM and performance: What's next?* Working paper. Ithaca, NY: Cornell University, School of Industrial and Labor Relations, Center for Advanced Human Resource Studies. Retrieved from: digitalcommons.ilr.cornell.edu/cahrswp/476
- Pearce, J. A., Freeman, E. B., & Robinson, R. B. (1987). The tenuous link between formal strategic planning and financial performance. *Academy of Management Review*, 12(4), 658–675. doi:10.2307/258080
- Petry, K., Steinbach, D., & Tokarski, W. (2004). Sport systems in the countries of the European Union: Similarities and differences. *European Journal for Sport and Society*, 1(1), 15–21. Retrieved from: http://www.ejss.ch/PDF-Dateien/ejss2004_Vol1_Issue1_Petry%20et%20al_Sport%20systems%20in%20the%20countries%20of%20the%20European%20Union-similarities%20and%20differences.pdf
- Pfeffer, J., & Salancik, G. R. (1978). *The external control of organizations: A resource dependence perspective*. New York, NY: Harper and Row.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.-Y., & Podsakoff, N. P. (2003). Common method biases in behavioral research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), 879–903. doi:10.1037/0021-9010.88.5.879
- Porter, M. (1980). *Competitive strategy*. New York, NY: Free Press.
- Prajogo, D. I., & Sohal, A. S. (2006). The relationship between organization strategy, total quality management (TQM), and organization performance—the mediating role of TQM. *European Journal of Operational Research*, 168(1), 35–50. doi:10.1016/j.ejor.2004.03.033
- Škorić, S., Bartoluci, M., & Čustonja, Z. (2012). Public financing in Croatian sport. *Financial Theory & Practice*, 36(2), 109–227. doi:10.3326/fintp.36.2.3
- Tan, J., & Litschert, R. J. (1994). Environment–strategy relationship and its performance implications: An empirical study of Chinese electronics industry. *Strategic Management Journal*, 15(1), 1–20.
- Taylor, T., Doherty, A., & McGraw, P. (2008). *Managing people in sport organizations: A strategic human resource management perspective*. Oxford: Butterworth-Heinemann.

- Thiel, A., & Mayer, J. (2009). Characteristics of voluntary sport clubs management: A sociological perspective. *European Sport Management Quarterly*, 9(1), 11–98. doi:10.1080/16184740802461744
- Vos, S., Breesch, D., Kesenne, S., Van Hoecke, J., Vanreusel, B., & Scheerder, J. (2011). Governmental subsidies and coercive pressures. Evidence from sport clubs and their resource dependencies. *European Journal for Sport and Society*, 8(4), 257–280. Retrieved from: http://www.waxmann.com/index.php?id=zeitschriftendetails&no_cache=1&eID=download&id_artikel=ART100391&uid=frei
- Vos, S., Wicker, P., Breuer, C., & Scheerder, J. (2013). Sports policy systems in regulated Rhineland welfare states: Similarities and differences in financial structures of sports clubs. *International Journal of Sport Policy and Politics*, 5(1), 55–71. doi:10.1080/19406940.2012.657665
- Whitley, R., & Czaban, L. (1998). Institutional transformation and enterprise change in an emergent capitalist economy: The case of Hungary. *Organization Studies*, 19(2), 259–280. doi:10.1177/017084069801900205
- Wicker, P., & Breuer, C. (2011). Scarcity of resources in German non-profit sport clubs. *Sport Management Review*, 14(2), 188–201. doi:10.1016/j.smr.2010.09.001
- Wicker, P., & Breuer, C. (2015). How the economic and financial situation of the community affects sport clubs' resources: Evidence from multi-level models. *International Journal of Financial Studies*, 3(1), 31–48. doi:10.3390/ijfs3010031
- Wicker, P., Weingärtner, C., Breuer, C., & Dietl, H. (2012). The effect of a sport institution's legal structure on sponsorship income: The case of amateur equestrian sports in Germany. *International Journal of Sport Finance*, 7(4), 340–357. Retrieved from: http://www98.griffith.edu.au/dspace/bitstream/handle/10072/49522/82057_1.pdf?sequence=1
- Zahra, S. A., Neubaum, D. O., & Huse, M. (2000). Entrepreneurship in medium-size companies: Exploring the effects of ownership and governance systems. *Journal of Management*, 26(5), 947–976. doi:10.1177/014920630002600509