Applying the Public Sector ScoreCard in Professional Sports

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While the performance measurement of professional sports clubs has a traditionally strong focus on sports results, the commercial success and stakeholder involvement of clubs is gaining importance. Sports results may generate market revenues, by satisfying customer needs, and allow continued investment in the further improvement of sports success (i.e. more funds for signing players and paying their wages). Club managers face the challenge of understanding the complex relationship between on-field and off-the-field success, and identifying critical success factors for achieving strategic objectives. In our previous publications we made recommendations for applying the Balanced Scorecard for professional sports clubs. Now we examine the opportunity to use the Public Sector Scorecard approach as a potentially plausible framework for managing sports clubs with a strategic mindset. Our paper explains the challenges of and opportunities for implementing a Public Sector Scorecard system in professional sport through an in-depth case study of a handball club in Hungary. We conclude by providing a model for managing sports organisations in line with strategic objectives, balancing out stakeholder expectations for sports results, stakeholder involvement and commercial success.

Keywords: Public Sector ScoreCard, performance measurement, sport, success, strategy, management

JEL classification code: M – Business Administration and Business Economics

Professional sports clubs attract the interest of not only their supporters but also scholars from different fields. The economics of sport has developed into a significant area of research trying to provide explanation for the ever changing dynamics of revenues and costs at different levels of analysis. Our focus is at club level, more specifically professional sports clubs in team sports. Also, we limit our investigation to the Central-Eastern European region, drawing our sample from Hungary, the host (among others) of a range of successful men and women handball clubs.

Our research question is “whether and how the Public Sector ScoreCard methodology (Moullin, 2004) can be applied to professional sports clubs in the
CEE region”. Public Sector ScoreCard (PSS) is a recently developed variation of the Balanced ScoreCard (BSC), which has been implemented in a range of different industries and sectors. We aim to explore if and when the PSS framework can provide practical guidance for managers of professional sports clubs in developing and implementing a strategy that drives value for all the key stakeholders of clubs, including different groups of service users (supporters, media, sponsors, youth players) local communities (public bodies and civil organisations), the professional players and more.

Our interest stems from the complex role professional sports clubs play in the communities they operate in. A range of academic literature (e.g. Szymanski & Kuypers, 1999; András, 2003; Kozma & Kazai Önodi, 2014a) highlighted the potentially conflicting objectives of achieving sports success and financial success. Also, in markets of limited size, professional sports clubs cannot fully be operated on a commercial basis; hence different sources of public support prevail. In this context, the traditional business framework of serving customers by generating value for shareholders is not fully applicable, with a list of public organisations holding a stake in how the club performs and the way it is actually managed.

Hitherto, no management and performance measurement framework has been widely applied for professionally managed sports clubs, mainly due to the challenges arising from the complexity of their objectives, especially in markets of limited size. Our efforts of applying the Balanced ScoreCard to professional sports clubs (Kozma & Kazai Önodi, 2014a) also showed the inherent challenges of using a business management framework that can work appropriately for a not entirely profit-oriented sports organisation. Our current endeavour to assess the applicability of PSS may promise a closer fit between the framework and club operations. In any case, we are willing to highlight the challenges and make recommendations for successful application.

Our paper may interest sports managers in professional team sports, officials of any related entities in the supply chain, business partners and, of course, anyone who bears sincere interest in sports. Furthermore, researchers involved in studying the diverse range of available performance measurement systems may find it interesting how one of the more generic frameworks can be applied in the particularly complex and challenging field of professional sports in a developing market.

**Methodology**

The research methodology applied in our project is based on the case study approach as defined by Yin (2003). We start by a pilot case study to gain insights into the application of the theoretical concept in a challenging new field of research. Our preliminary propositions are based on an extensive literature review and our practical understanding of sport operations in the CEE region. The methodology allows conclusions to be generalised even from a single case. Analytical, rather than statistical generalisations are made in the form of refined propositions that can form the basis of consecutive case studies.
In accordance with recommendations from Miles and Huberman (1994), the pilot project we selected into our preliminary sample based on a few selected principles. Handball was selected as it is an increasingly popular spectator sport in Hungary, in which some of the local teams are world class. Also, there is a tendency that an increasing number of top managers working for handball teams have a qualification of business or economics, allowing more space for us to more directly test our theoretical propositions, as they tend to understand our business approach to performance measurement. The club we selected is a relatively successful countryside women team with a reasonable chance of top3 position in each season. The exact identity of the club in our sample has been agreed to remain confidential to allow more insightful presentation of their operations.

Performance measurement and the Public Sector Scorecard

An appropriate performance measurement system plays a major role in management, in profit-oriented companies as well as in the non-profit sector because of increasing external control, stronger competition and limited resources. It is essential for preparing decisions, providing information about operation and has a crucial role in motivation. Most performance measurement systems and tools were developed for profit-oriented organisations and after their success they were adapted by non-profit ones. Some performance measurement tendencies had a crucial effect on the non-profit sector, such as measuring quality has become the focus, handling indirect costs in a more accurate way, keeping strategic focus and using multidimensional performance measurement systems.

Integrating financial and non-financial metrics into multidimensional performance measurement system is essential in case of sports organisations as well. The best know performance measurement model is the Balanced Scorecard of Kaplan and Norton (1997, 2002, 2005), but we have to mention the relevance of the Navigator System of Skandia (1994, 1995) and the performance prism of Neely et al. (2004) as well. As we discussed it in our previous research (Kozma & Kazai Ónodi, 2014a) the main strengths of BSC application in sports organisations include systematic thinking, the multiple-perspective approach, a focus on causality and centre-of-gravity areas, offer a reference framework and guidance to design company-specific performance measurement systems.

In sports associations the Balanced Scorecard is the best-known integrated performance measurement system. Because BSC was invented for profit-oriented organisations, several adaptations were needed. (See Alonso et al., 2009; Becsky, 2011; Coskun & Selman, 2013; Delaney, 2008; IFUA Horváth & Partners, Jafari-Eskandari et al., 2013; Jones, 2006, 2004; Kriemadis et al., 2008; Kozma & Kazai Ónodi, 2014a; Szabados, 2002; Westerbeek et al., 2007.)

Moullin (2004) modified the original BSC model to fit the public and voluntary sectors better and developed his own model: Public Sector Scorecard (PSS). This model includes several key elements of the original Balanced Scorecard
(more perspectives, integration of financial and non-financial metrics, measuring outcomes, processes and capabilities, strategic focus, strategy map), but it has some special characteristics which made the basic concept more understandable and adaptable for managers of non-profit organisations. The key difference is that it has seven perspectives organised in three groups: outcomes, processes and capabilities (See Figure 1).

Figure 1. Seven perspectives of the Public Sector Scorecard

Source: Moullin, 2009:29

All BSC perspectives (financial, customer, internal processes and learning and growth) can be observed in this model. The financial perspective is one of the key outcomes according to PSS, but it is only a tool for the ultimate purpose of non-profit organisations and it is placed on the same level of metrics hierarchy as customer perspective. Moullin (2004) used another term for customer perspective: service users and stakeholders, which is more suitable in the non-profit sector. The strategic perspective reflects the key expectations of the associations. Since the requirements for non-profit organisations are complex, they have to serve many stakeholder groups' interests at the same time, thus creating a new strategic perspective could be relevant. The internal processes perspective of BSC corresponds with the operational excellence which is the only perspective that relates to processes. The matter of them are the same, only the names are different. The learning and growth perspective can be found in PSS as an innovation and learning perspective. In several non-profit organisations the human research management is one of the most important value drivers, which underpins the relevance of leadership and people, partnerships and resources perspectives.
PSS emphasises the connection amongst the three levels, capabilities are necessary for operational excellence that leads to the desirable outcomes. This logic can be observed in the Performance Prism of Neely et al. (2004) where capabilities are needed to operate and enhance the processes that are crucial for the execution of the organisations’ strategy. One of the main differences between PSS and Performance Prism is that Neely et al. (2004) distinguish stakeholder satisfaction and stakeholder contribution which mean two other perspectives beside strategies, processes and capabilities.

The relevance of Moullin’s works (2004, 2009, 2013) does not only provide an easily adaptable framework for non-profit organisations but the process of PSS applications are described as well. The seven stages of the Public Sector Scorecard:

1. **Clarifying outcomes**
2. **Redesigning processes**
3. **Addressing capability**
4. **Strategy mapping**
5. **Integrating risk management**
6. **Developing performance measures**

The first step in every performance measurement system application is to clarify goals. It can be strategic goals as in BSC or we can call it outcomes. Clarifying strategy and the lack of consensus on strategic goals is often challenging in the non-profit sector according to Taliento and Silverman (2005), clarifying outcomes is simpler. The second step is to work out how organisations can achieve these goals. For this they have to redesign processes and address capabilities. The basic concept of strategy map derives from Kaplan and Norton (2002). In the interpretation of Moullin (2009) strategy map describes the relationship between outcome, process and capability elements. Integrating risk management means a new stage compared to BSC. The process of risk management is identifying the key risk factors, considering the reduction of them and reviewing the process by which risks are reduced, eliminated or mitigated. The last two stages: developing performance measures and learning from performance measures are common and crucial elements of every performance system application. Measuring non-profit organisations’ performance is challenging, and innovative measures are needed (Taliento & Silverman, 2005).

Although the Public Sector Scorecard integrates the crucial elements of well-known performance measurement systems and adapts them to the speciality of the non-profit sector, it is not a widely used framework.
The rationale for applying the Public Sector ScoreCard for professional sports clubs

Managers of professional sports clubs are increasingly aware of the opportunities in applying a performance measurement methodology for their club. Many of these methodologies, like the Balanced ScoreCard, are widely accepted in “traditional” business organisations. The Public Sector ScoreCard appears to be more directly relevant to professional sports clubs, due to its consideration of performance aspects beyond the scope of commercial operations.

In this context, PSS can be relevant for two major reasons. First, it is appropriately complex in its scope, as it is usual for most of the multidimensional performance measurement systems, like the Balanced ScoreCard (Kozma & Kazai Önodi, 2014a). It puts pressure on management to clarify the strategic orientation and goals of their organisation, and to identify the steps to reach those goals; it stimulates a multi-aspect approach to performance measurement, while drawing up the cause-effect relationships also requires an emphatic strategic mindset, and the operational interrelationships of organisational activities and processes are to be clarified. Different goals need to be interlinked. PSS provides a common goal and communication tool for the management; it can be linked to the annual planning and budgeting process. It also provides a formal framework for monitoring organisational performance. When applying PSS, the strategic learning process is fostered, and it can also be used for motivational purposes. Secondly, there is an advantage of PSS compared to BSC, as it aims to provide a framework that reflects the characteristics of the non-profit sector, and puts more emphasis on risk considerations.

The following sections highlight our suggested interpretation of the analytical case from the approach of the PSS framework: expected outcomes, supporting processes and capabilities of professional sports clubs.

The expected outcomes of performance for professional sports clubs

In order to identify the expected outcomes of professional sports teams, clarification on the ultimate purpose of clubs is necessary. It bears idiosyncrasies not typical for other sectors of the entertainment industry.

Based on our understanding of professional sports sector (András, Kozma & Kynsburg, 2000; András, 2003; Kynsburg, 2011; Dobson & Goddard, 2004; Beech & Chadwick, 2013; Kozma & Kazai Önodi, 2014b) the ultimate purpose of sports organisations differs depending on the market environment they operate in. Larger markets may justify running professional sports clubs as businesses: satisfying customer needs by generating profits (Chikán, 2008). In team sports, however, this is only valid for a limited list of leagues in the world: the major leagues in the US, English football, and a few significant leagues in Germany (football, handball, and possibly ice hockey). In most other cases, the
traditional business considerations are intertwined with strong public considerations, represented by the central or local government that generally support the investments and operations of sports. This is also the case in Hungary, as reflected by our case study.

In this publicly sensitive environment, the ultimate purpose of professional sports clubs is attracting the continuous attention of key stakeholders through providing services in a financially sustainable way (Kozma & Kazai Ónodi, 2014a, 2014b; cf. András, 2003a). How this may be achieved is the subject of strategy development for professional sports clubs.

Another point to clarify is the interpretation of the users of service and stakeholders of professional sports clubs. Based on our empirical investigation, in the Hungarian context there are two major groups of users of the services the professional sports club provides. Firstly, the consumers of the “entertaining show” the professional team performs in competitive matches; they are on-site supporters, television viewers, and less directly, also sponsors. The second type of services users are children participating in the grass-roots programme organised by the professional sports club. They and their families benefit from the training and development services which are the other core services provided by a club that is in large part financed and supported by public related organisations, through government funding schemes or local municipal funds and allowances. Other people and companies, civil organisations operating in the city and the region are not direct users but still relevant stakeholders for the professional sports club.

In that context, we have identified the key expected outcomes for professional sports clubs in Hungary. The primary performance outcomes that may substantiate the attraction of stakeholder interest are focused around the strategic goal of winning trophies: championship and cup titles in domestic and international competitions. How many and how prestigious trophies are specifically expected to be collected by a professional sports club largely depends on the market size the club operates in and the local traditions of the sport.

Strong contribution to an increased participation in sport is also expected of professional sports clubs, especially in markets with limited commercial potential. Active participation involves the effective operation of the grass-roots programme (youth development scheme) of the club recruiting a range of young talent from the local or regional population. However, passive participation also plays a strategic role, as the more people follow the team’s performance as spectators, the more attention the club attracts, and this attention may be capitalised upon through increased support from the community. Academic literature suggests (Szymanski & Kuypers, 1999; Dobson & Goddard, 2003, etc.) that competitive balance, the uncertainty of sporting results, and the professionally managed match experience support the attractiveness of a team’s performance. Perceived sports success tends to bring public benefits, in terms of the strengthened pride and a sense of belonging for the local or wider community. Also, sports success may bridge the gap that sometimes exists between the expectations of different stakeholders.

Financial sustainability, partly through exploiting commercialisation opportunities, is crucially needed for clubs operations to be continuously
provided to stakeholders. While public funding is generally welcome, this must not exceed a certain proportion of total financing, as any public support is naturally subject to changing political approaches. Extraordinary level of public funding support cannot sustainably be relied upon.

In terms of how these strategic outcomes can be measured, our empirical investigation suggested the following approach for each type of outcome. Sports success measures include the number of championship and cup titles, both domestically and internationally. For teams that cannot realistically target winning titles, rankings in the league and progression in cups competitions are more relevant measures. Participation in sport is more challenging to quantify. While direct calculation of youth players registered for the grass-roots programme and the number of supporters attending matches and registered for the club’s fan club are tractable indicators of active and passive involvement, these are rough measures that need further refinement. The number of years a child plays in the youth teams, and the number of youth games they play are more advanced measures for active involvement. Similarly, the social media activity of fans, the visitor traffic generated by the club’s website, as well as the volatility of attendance at matches at turnover in the club merchandise shop provide more insights into how well participation outcomes are achieved. Softer approaches of measurement may also apply: satisfaction surveys or opinion polls may be conducted among different groups of service users and stakeholders. Regarding financial sustainability, the financial balance of annual income (the equivalent of profit for non-profit organisations) is the most direct measure. However, the robustness of revenue generation, the length of sponsorship contracts, and the wages/income ratio are more revealing indicators of financial sustainability.

The key operating processes that support achieving the intended outcomes

The Public Sector ScoreCard framework suggests that there are core processes in a company that support achieving the intended outcomes set in strategy development. A professional sport clubs typically has three types of key processes. Once identified, achieving operational excellence in those processes can ensure the most possible benefits are generated by the usage of available resources.

The most fundamental operating process of a professional sports club is winning games. This is a complex process involving the continuous training and development of professional players, and instructing them in the preparation and playing of competitive matches. Consequently, the ability to win single matches may have the accumulated impact of winning titles – the most fundamental expected outcome of a professional sports team.

The second type of core processes are related to marketing the fundamental services of the professional sports club: entertainment. Marketing the experience of matches and the joy of winning trophies can be broken down to three different targets: serving on-site supporters, serving broadcasters and serving sponsors. On-site supporters may not provide a substantial source of
income for many of the Hungarian professional sports clubs, their strategic role stems from the impact of their active supporting on the outcome of winning matches (stimulating the positive attitude of the playing team) and also contributing to the show media broadcasts to a larger pool of remote supporters. Media companies demand appropriate support from the club management so that they can provide scintillating content to achieve their own audience targets. Similarly, sponsors do not provide funds for the professional sports club only for corporate social responsibility considerations, but they tend to expect professional service from the clubs so that sponsoring firms can make the most impact from their involvement. The minimum they require is appropriate positioning of their logos and molinos on site, as well as access to the corporate seats in the stands. In our empirical investigation we have found that the current level of services provided to media and sponsors reflect the limited size of the local market and the lack of strong commercial traditions; however, international best practice (KPMG, 2011; András, Kozma & Kynsburg, 2000; András & Jandó, 2012) suggests that serving the media and sponsors will increasingly gain strategic importance, even in smaller markets like Hungary.

The third type of core processes are related to the participation outcome expected of professional sports clubs. Reflecting the structure of outcomes, processes are also broken down along active and passive participation patterns.

Active participation involves recruiting and developing young talents in the grass-roots programmes of professional sports clubs. Depending on the level of competition from other professional clubs in targeting local children, recruitment may entail reaching out to a number of local towns and villages in the region. In those communities sport may substantiate value added content to the life of the local society, as well as unparalleled career opportunities for children. Furthermore, organising the training and development of the consequent age groups of youth players necessitates significant efforts from the professional sports club that may not provide financial returns large enough to maintain the grass-roots system. Hence, youth development is more related to the participation outcome targeted by the club, rather than any market-driven considerations.

The core process related to the passive participation outcome expected of professional sports clubs is focused on fostering a meaningful relationship with supporters and the local communities. This naturally involves providing convenient service to on-site supporters, and reaches beyond match-days to offer forums of participation for fans and local community representatives. Fan forums, family days or school competitions can be organised to give opportunities for stakeholders to relate to the club and its staff.

Measurement of operational excellence along the above core processes are various and greatly contingent upon the idiosyncrasies of individual clubs. However, there are robust measures that may generally apply. These include the enrolment statistics of youth players in proportion of the total population in a city or region, the ratio of recruited players who eventually get promoted the senior squad of the professional team, as well as the attendance of fan forums and the number of local community events organised by the club in a season.
Capabilities that support people and processes to achieve operational excellence

Certain capabilities may or may not be available to support achieving operational excellence in the core processes that generate the expected outcomes of professional sports teams. Based on our empirical investigation, the following capabilities appear to bring the most value-added.

Leadership qualities of the professional sports club’s top management are essential to steer the organisation towards strategic objectives, especially as the strategic outcomes to achieve are complex and far reaching. In light of the apparent gap between current practice and the envisioned future operations, a leader with a clear vision and commitment to what the organisation aims to achieve seems to be as essential to strategic success as the professional players who score goals.

The fundamental capability required for professional sports clubs is the know-how of training players, and orchestrating winning tactics and their implementation for the competitive games. More recently, this know-how has typically come through experience of foreign coaches signing for Hungarian teams. Their knowledge of how star players can be managed to work together as a team and how their career ambitions can be brought in line with the ambitions of the club are vital for sporting success and all other related outcomes.

Capabilities focused around attracting, recruiting top-tier international players to the clubs, as well as operating the youth development activities are related to both the outcomes of winning trophies and increasing active and passive participation of players and supporters. Experience shows that these capabilities assume an international network of the club and its management, through which best practice experience may be adapted to local conditions.

Commercialisation know-how is another type of management skill to be developed for supporting the core operations of providing service to supporters, the media and sponsors. How the entertainment services and the sporting facilities can be commercialised in order to generate market revenues and also to increase attendance are skills that can be fostered in more developed markets. International experience then may be applied in developing the local business operations of the club; a challenging task in light of the limited market size and the lack of commercial mindset prevalent in most clubs’ management in Hungary.

A related resource to be ensured is access to a sporting facility suitable to provide the comfort and ancillary services necessary to complement the core entertainment service of a professional sports club: competitive matches. Facilities cost much to build, and substantiate an incessant challenge to maintain and operate; most of the Hungarian professional sports clubs are not in the position to run their primary facility without substantial public support. In fact, most of the facilities are in public ownership, with the clubs using the premises under long-term lease contracts with preferential terms.
Attracting support from sponsors and local municipalities is a task that can make or break the strategic success of professional sports clubs in our region. This involves networking skills and developing good personal relationship with key stakeholders. Typically, sponsors have business considerations in contracting with a sports clubs, but their decision of where to allocate their available funds are based more on personal relationships than pure financial calculations. Likewise, local municipalities are free to decide which sports and which clubs of the city to support and also in terms of the extent and format of support they may provide. Fostering these relationships is a key skill professional sport clubs' management need to master.

Finally, the ability of the staff and management to learn and innovate in a changing environment can be greatly supportive to successful strategic management. Innovations are based on people who are happy, trained and developing. How activities are organised (e.g. quicker access to the seats in the arena), how new service ideas (e.g. new programmes in the arena) and efficiency improving solutions (e.g. electronic ticketing) are implemented are major factors that differentiate more successful sports organisations from the rest.

The availability of key capabilities and the extent and quality of their applicability for the club’s purposes is difficult to quantify. In general, we recommend the following measures as potentially powerful approaches to understanding which capabilities a clubs can rely on in the quest for strategic achievement.

Leadership skills can be assessed through employee surveys and the level of turnover within the staff. Technical and management skills of the sport management team, i.e. the coaching staff, are relatively closely related to the actual sport performance the team can achieve, especially if controlled for the value of the playing squad. The track record of coaches can also be used as a proxy to be used for judging their management capabilities. The existing professional network of managers can be evaluated based on the proof of regular interaction with foreign professionals of comparable position, and the frequency of attending major competitions, association meetings of thematic conferences. The commercialisation know-how of management is normally in line with the level of experience they have in more mature commercial markets. This experience can come from foreign sport markets (USA or major Western European countries), or more competitive segments of the local economy (e.g. FMCG, consultancy). The extent and quality of personal relationship with local municipalities and sponsors is normally a matter of previous job positions in the region and any joint involvement in major commercial or other projects. The tricky aspect of the above capability matrix is that it is very rare for managers to have strong international network and close links to local municipalities and sponsors. Those who have this exceptional combination can prove to be a sustainable source of competitive advantage for the professional sports club they work for.
Concluding remarks

While it has not been our objective to fully develop and implement a PSS application in a professional sports club, our investigation revealed that an actual application of the framework is both possible and promising in terms of supporting effective strategic management.

In our empirical study we have found that the primary strategic objective of a professional sports club is winning sports trophies. However, this is to be supported by additional expected outcomes, namely increased stakeholder participation and sustainable financial management. We highlighted the key processes that support achieving the identified expected outcomes: preparation for matches and orchestrating winning on-field performances, providing exceptional service to a range of key users (supporters, the media, and sponsors), developing young talent from the region, and fostering meaningful relationship with local communities. The capabilities underlying operational excellence range from leadership skills, sports management and commercial know-how, attracting and developing talent, ensuring access to publicly-owned facilities and building strong relationship domestically and internationally among stakeholders.

The implications of our findings are related to a refined understanding of the complex outcomes expected of professional sports clubs, integrated into a management framework that supports maintaining a strategic mindset. This complements the existing literature of performance measurement systems by the exciting application field of professional sports in a developing market, while it also may stimulate strategic thinking for sports management practitioners.

We recommend further investigations to be made in terms of how the PSS framework may actually be implemented for professional sports clubs, potentially in an action research framework. Furthermore, a comparative assessment of the PSS methodology with other performance measurement tools in the sports sector may also attract significant scholarly interest.

References


