Financial Resource Management
Sport, Tourism, and Leisure Services

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Sagamore Publishing, L.L.C.
Champaign, Illinois
Dedication

To Our Families:

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Effective managers in sport, tourism, and leisure service organizations are required to have a wide variety of skills and a good understanding of all of the resources that they manage. Not only should they be competent as personnel managers, but they also need to know how to manage their physical facilities. In addition, they need to be effective in their management of time, for time is one resource that cannot be renewed. Good managers also need to know how to use their financial resources effectively.

Throughout the history of our profession, there have never been times of such great prosperity that decisions could be made or practices maintained without consideration of their financial implications. Certainly, there have been situations where financial constraints have been minimal, but even then, some measure of financial accountability has been required of those who receive and spend an organization’s money.

Similarly, there has never been a time of such flexibility that some degree of planning was not required of resource managers. In fact, experience has shown that a lack of planning reduces flexibility, as choices are replaced by externally controlled consequences. Budgeting and long-term financial planning are areas of understanding and skill that every sport, tourism, and leisure service manager must develop and magnify.

This book has been written with the needs of the sport, tourism, and leisure service manager in mind. It has been written by two people who have worked in a variety of sport, tourism, and leisure settings in several different parts of the United States and Canada and who have discovered that there is no place to hide from the opportunity or responsibility to know about budgets, finance, and fiscal management. It has been written for the mathematically challenged, for the pre-professional, for the professional who received on-the-job training, and for the professional who is keenly interested in and dedicated to continuous improvement.
Readers will learn important principles of economics and finance. They will also learn the skills necessary to prepare, present, and manage budgets, as well as generate revenues for capital development and day-to-day operations. Discussions include examples from the “real world” and offer illustrations to facilitate the learning of some of the more complex or technical points.
The first four chapters present a discussion and comparison of the types and settings of organizations that most need the principles and practices explored in this book. After an introductory examination of the general differences between sport, tourism, and leisure service organizations that operate in public, private, not-for-profit, and commercial environments, complete chapters are dedicated to special financial management concerns in public and private not-for-profit recreation and sport organizations, and in tourism and commercial recreation enterprises.
Introduction

Approaches to the management of financial resources in sport, tourism, and leisure service organizations vary greatly, depending on the mandate and goals of the organizations, as well as the political environments in which they operate. However, almost every sport, tourism, or leisure service organization can be classified as either a public, private not-for-profit, or commercial enterprise, and each type of organization has unique and uniquely common features that relate directly to financial management and budgeting.

This brief chapter examines the finance-related differences between the three types of sport, tourism, and leisure enterprises and explores related legislative/legal parameters, social roles/expectations, market management techniques, indicators of success, and particular financial management opportunities and challenges. A concluding discussion focuses on competition and cooperation between sport, tourism, and leisure service organizations of different types. In devoting this discussion to the unique characteristics and differences among public, private not-for-profit, and commercial sport, tourism, and leisure service organizations, there is a danger that their many important similarities will be ignored. Such is not the intent of this chapter. Although it is important to understand the differences, it is just as important to acknowledge the common principles, practices, structures, and competencies associated with financial management. Those similarities will receive ample attention in subsequent chapters.

Public Enterprises

A sport, tourism, and leisure service enterprise operating in the public sector generally has a broad mandate to provide services that directly or indirectly benefit
an entire community. The organization is usually an arm of government (e.g., a municipal recreation department, a public educational institution, or a convention and visitors bureau) that is charged with enhancing the quality of life of its patrons by providing enriching experiences and remedying social problems. The “public” nature of the organization is not only emphasized in its nondiscriminatory offering and delivery of services, but also in the nondiscriminatory way by which its operating funds are expropriated. Public sport, tourism, and leisure service organizations receive their base financial resources from the public through taxation. They may also charge fees and receive gratuitous income from private sources; but the foundation of their support is the ability of government to meet its operational goals by taxing its constituents or those who fall within its taxation jurisdiction.

**Legislative/Legal Parameters**

In order for the governing body of a public sport, tourism, or leisure service organization to compel its constituents to contribute funds to support the operation of that organization, it must first win a legal right to levy taxes and to use those taxes for such purposes. The U.S. Constitution sets the legal parameters for the federal government to collect and use public funds for sport, tourism, and leisure services. The federal system also provides for the establishment and public funding of state and local governments and government programs. State governments must have their own constitutional provisions for taxation and public funding of sport, tourism, and leisure services. Local (i.e., municipal) governments, on the other hand, may extend public financial support to sport, tourism, and leisure services only if the state government already has enacted appropriate enabling legislation.

**Social Roles/Expectations**

Public sport, tourism, and leisure service organizations exist for the purpose of meeting social needs. The taxpaying public expects sport, tourism, and leisure service organizations to be engaged in enterprises and programs that use public funds for the common good and for community betterment. Within the community, there is general acceptance and tolerance of certain services receiving tax subsidies, and many low-cost or free (i.e., completely subsidized) services (e.g., neighborhood parks) are expected, demanded, and even required as basic elements of social order and as important tools in social engineering.

**Market Management Techniques**

Modern practices of sport, tourism, and leisure service organizations include market segmentation and target marketing. Public organizations use “need” rather than “profit potential” as the primary segmentation criterion in their marketing efforts. Products, prices, and promotional strategies are established in consideration of the desire to appeal to as many as possible in the community who need the service. Distribution considerations also reflect the priority of the public sector organization to ensure service delivery to as broad a market as possible. For example, when faced with a new private or commercial sector competitor, a public agency may choose to withdraw from the marketplace—not because it is unable to compete, but because the competitor has demonstrated that it can meet the same needs without tax support and, perhaps, with greater efficiency. The marketing objective of the public sport, tourism, or leisure service organization
is either to provide the benefit or to accommodate its provision by another appropriate supplier.

**Indicators of Success**

Financial managers in the public sector measure their success by comparing their achievements to their goals. That is also true of financial managers in the private not-for-profit and commercial sectors, but the goals of the latter organizations are more precisely associated with financial returns on financial investments. Public financial managers focus on achieving targeted levels of revenue and expenditure and on the social and economic benefits realized by those expenditures.

**Financial Management Opportunities and Challenges**

Public sport, tourism, and leisure service organizations enjoy several opportunities that are unique to their sector. One opportunity is that of tax exemption. By convention, no government may charge taxes to a government at another level, which means that the local public agency has greater purchasing power due to being exempt from state or federal sales taxes. Another opportunity lies in the ability of the public institution to borrow money for capital projects. The government is a low-risk borrower, primarily because it can use its taxing power and its access to the taxable wealth of the community as collateral. A third opportunity enjoyed by the public sector is the goodwill and altruistic behavior of people in the community. Actively encouraged and supported volunteer programs provide human resources without the loss of the sport, tourism, and leisure service organization's financial resources.

A challenge experienced by financial managers in the public sector is the scrutiny and accountability to the public and to other legislative/regulatory bodies. True to the democratic ideal, citizens voice their views about how their taxes are being used, and there is always someone who was not elected who is certain that he or she could do a better job. The close scrutiny of financial management also comes from other formal organizations or agencies whose job it is to ensure that the public treasury is being properly managed. This close scrutiny is usually facilitated by seemingly countless forms and reports which the financial manager must take time to complete. A second challenge comes in the form of changing political winds. Financial management in the public sector requires sensitivity to the political environment, and changes in political priorities may require readjustment of financial plans or management structures.

**Other**

Two other aspects of financial management in the public sector require a brief mention before looking at financial management in the private not-for-profit sector. One aspect concerns the advantage that comes to the public sport, tourism, or leisure service organization by virtue of its taxing authority—an advantage over competitors or would-be competitors that cannot compete because they must raise capital funds at market prices and pay taxes to their competitor, the public agency. In many cases, the charge of unfair competition leveled at the public sector may be well deserved. The second aspect concerns the belief in the private sector that, because of the seemingly unchecked taxing power of government, the public sport, tourism, and leisure service organization has “deep pockets.” Therefore, the reasoning goes, only public agencies can or should
be expected to raise the capital necessary to build and maintain such major facilities as a 100,000-seat sports stadium or domed arena. Financial managers in the public sector are, however, quite aware of the limitations of public tolerance for taxation and have shortened their reach into the taxpayers' pockets. Sometimes this restraint has been self-imposed, and sometimes it has resulted from public pressure and sentiment, such as that expressed in several landmark propositions passed by voters in recent years.

**Private Not-for-Profit Enterprises**

The private not-for-profit sector is composed of organizations that provide sport, tourism, and leisure services without the direct support of public funds and without the requirement to generate increased personal wealth for any owners or investors. These organizations are private in the sense that they are not owned or directed by government. They are not-for-profit in the sense that they must generate income to at least cover their expenses, yet do not generate profits for the purpose of making anybody richer. They may make a profit from certain enterprises, but overall profit is not the goal, and any profits that are realized are used to maintain or enhance the viability of the organization. Private not-for-profit sport and leisure service organizations exist to meet the service needs of selected consumers in situations where the public sector is either unwilling or unable to function, and where commercial organizations are also either unwilling or unable to conduct business. Well-known examples of private not-for-profit sport, tourism, and leisure service organizations include the YMCA, local church groups, community sport and athletic associations, recreation clubs, Boys and Girls Clubs, Boy Scouts of America, Girl Scouts, Chambers of Commerce, Historical Societies, and Destination Marketing Organizations.

Private not-for-profit organizations receive financial resources from membership fees, fundraising projects, donations, grants, and user fees. Their need for money from such sources is reduced considerably by the ability of private not-for-profit organizations to attract and keep committed volunteers. After religious organizations (which also offer many recreational programs), community sport and leisure organizations receive the greatest share of volunteer support in the United States and Canada.

**Legislative/Legal Parameters**

Private not-for-profit organizations are permitted to operate because of several important laws that free them from some of the restrictive controls that otherwise encumber public and commercial operations. For example, most private not-for-profit sport, tourism, and leisure service organizations enjoy a tax-free status. Additionally, the U.S. Postal Service and most commercial retailers and service suppliers offer specially reduced rates for recognized not-for-profit organizations. Federal and state income tax laws also encourage individuals and corporations to donate to charitable not-for-profit organizations by recognizing tax deductions or offering tax credits according to the amounts donated. In order for a donor to apply for such a tax benefit, the donation must go to an organization that is registered with the Internal Revenue Service as a 501(c3) Charitable Organization. Other state and federal tax law provisions also exist to support the valued work of private not-for-profit organizations.
In addition to filing with the IRS, all private not-for-profit sport, tourism, and leisure service organizations need to be properly constituted and registered as corporate entities. This registration may need to be with local, state, and/or federal agencies that regulate the operations of commercial and not-for-profit organizations.

**Social Roles/Expectations**

Like public agencies, private not-for-profit sport, tourism, and leisure service organizations exist to meet social needs. However, they are more selective in the needs that they try to meet. Usually, a private not-for-profit organization is identified with a single “cause” or specific interest, such as helping at-risk youth, strengthening families, promoting mass involvement in camping, developing coaching skills for basketball, promoting literacy, encouraging historic preservation and interpretation, or promoting visitation.

**Market Management Techniques**

The relatively narrow focus of the not-for-profit organization tends to restrict the scope of its market and dictate the techniques it must use to effectively and appropriately manage the consumption process. The identity of the client base is readily established by the needs or the shared interactions of the people with the target needs. Pricing decisions reflect the requirement to break even or generate modest profits when additional money is needed for other service activities of the organization. Service allocation for private not-for-profit sport, tourism, and leisure service organizations is based primarily on need, with little regard for merit or profit potential.

**Indicators of Success**

Financial managers in the private not-for-profit sector measure their success by comparing their achievements to their goals. That is also true of financial managers in the public and commercial sectors; however, the goals of the public organizations are not at all associated with financial returns on financial investments, while the overarching goal of commercial sector organizations is to make as much money as possible for the owner(s). Private not-for-profit financial managers focus on achieving social benefits while generating enough revenue and other resources (e.g., volunteers) to stay in operation and continue benefiting their specialized markets.

**Financial Management Opportunities and Challenges**

Public sympathy and affection are two important advantages enjoyed by organizations in the private not-for-profit sector. This factor is particularly helpful both in fundraising efforts and the recruitment of volunteers. Tax breaks and discounts also provide opportunities for private not-for-profit sport, tourism, and leisure service organizations to get the most out of their financial resources.

One challenge that smaller private not-for-profit organizations have is the lack of staff (or at least highly qualified staff) that can manage the financial resources in a consistent, accurate, and timely manner. Reliance on volunteers for financial management functions can, occasionally, have disastrous results for the organization. Another challenge is the relative risk associated with extending credit to an enterprise that depends so much on the popularity of its cause and the generosity of its supporters. Credit is based on confidence, and confidence is something that most small
nonprofit organizations enjoy from conservative lenders. A third significant financial management challenge is that of protecting the financial resources of the organization from short-term governing bodies that do not always act with long-term wisdom. Many nonprofit sport and leisure service organizations have failed or struggled because a new board of directors decided to use their carefully developed cash reserves for an immediate program expansion or initiative that did not result in sustained or enhanced financial strength.

Other

Financial management in the private not-for-profit sector requires many of the same skills and involves many of the same activities as those in the public sector. Sports, tourism, and leisure in the private not-for-profit sector is likely to continue as a strong and viable part of community life. It will, however, need more sophistication in the management of its financial resources as every aspect of operating in a modern society becomes more complex.

Commercial Enterprises

Sport, tourism, and leisure service enterprises operating in the commercial sector are distinguished from the others previously discussed by their profit motivation. It is important to note that “profit motivation,” rather than “profit generation,” is given as the defining characteristic. Commercial sport, tourism, and leisure enterprises may not always produce profits (especially in the early stages of development or during off-seasons), but the commercial enterprise will only stay in business if, over a reasonable period of time, an expected return on the investment is eventually realized. These organizations do not exist out of a need for a particular type of service. They exist because satisfying the need for a particular type of service is profitable. Commercial sector organizations do not receive tax revenues—they pay taxes. Commercial sector organizations do not typically receive operating grants or other forms of gratuitous income—they are called upon to make donations. Commercial sector organizations do not use volunteers—they support them. Because the commercial sector exists to benefit certain individuals (investors), it does not have access to the major revenue sources utilized by public and private not-for-profit agencies. Commercial sport, tourism, and leisure businesses must cover most or all of their costs of operating by charging fees, selling goods and services, and making other types of investments. Examples of commercial sector sport, tourism, and leisure service organizations include professional sports teams, resorts, amusement parks, meeting management companies, bowling centers, movie theaters, outdoor outfitters, and travel managers.

Legislative/Legal Parameters

There are many laws aimed at supporting and regulating commercial activity. Profit-motivated sport and leisure service organizations are subject to those laws that apply to their particular situations. The application of some laws will vary depending upon whether the sport or leisure business is set up as a corporation, syndicate, or partnership, or is individually owned.

Social Roles/Expectations

The primary social role or social expectation of the commercial sport, tourism, and leisure enterprise is to contribute to the economic well-being of the community. Proposals for new
commercial enterprises often highlight community benefits such as diversity in leisure options, opportunities for social interaction, promotion of health, development of community pride, and educational enrichment, but the benefit that is most eagerly sought is described in terms of jobs created, household income produced, sales activity, and tax revenue generated. Of course, there is the basic expectation that the enterprise will be consistent with community social standards, but the economic impact of the venture is regarded with the most interest and concern.

**Market Management Techniques**

Market management in commercial sport and leisure services is designed to do one thing: tap consumer spending power. Therefore, the only market that is of interest is the market that can pay enough and is willing to pay enough to help the organization realize its financial goals.

Responsiveness to market conditions is a key to success in commercial enterprises, and this responsiveness is often reflected in pricing strategies and in the use of advertising as a major promotional tool. Pricing strategies in the commercial sector focus on the total bottom line. That is, variation in pricing is frequently used to attract consumers by responding to price sensitivity on certain elements of the total service package. In a movie theater, for example, the admission price may be reduced to a point where it barely covers the costs of providing the cinematic opportunity, and yet, the price of the popcorn may be kept at a level that consumers can accept and that make the whole movie-going event (movie + snacks) profitable for the theater operator. The commercial sector is usually more responsive and more flexible in pricing than organizations in the public and private not-for-profit sectors. For similar reasons, the commercial sector is also more inclined than other types of organizations to use advertising (both institutional and product) to promote desired consumer responses.

**Indicators of Success**

Financial managers in the commercial sector measure their success by comparing their achievements to their goals. Unlike their counterparts in the public and private not-for-profit sectors, managers of commercial enterprises set goals that focus on the financial growth of the enterprise and on the return on the investment made therein. The balance sheet and the income statement serve as the primary evaluation documents rather than participant evaluation surveys. There is concern for the quality of consumers’ experience, but only so far as it affects the financial bottom line. The commercial sport and leisure service organization also measures its success by comparing its financial ratios with standards established for the industry. Financial ratios are discussed further in Chapter 19.

**Financial Management Opportunities and Challenges**

Commercial sport, tourism, and leisure service organizations enjoy several opportunities that are somewhat unique to this sector. Because they are profit motivated, they are not required to prop up socially beneficial but financially ineffective programs and services and can, as a result, concentrate on maximizing the utility of their assets. They can more easily identify and avoid products that do not meet their standards of success. The entrepreneurial spirit has free rein in the commercial sport, tourism, and leisure business environment, and managers find
excitement in the many opportunities to move resources from areas of low productivity to initiatives that offer greater results.

Challenges associated with financial management in the commercial sport, tourism, and leisure service organization include developing the knowledge and skill competencies required in order to be effective. Foremost among the skill requirements are investment management, bookkeeping, and financial forecasting. Effective financial managers continually add to their store of management abilities by reading and studying, attending conferences and workshops, and furthering their formal education in this discipline.

Although public, private not-for-profit, and commercial sport and leisure service organizations are alike in many ways, there are important differences among the three sectors with respect to financial management goals and practices. The foregoing discussion of differences is summarized in Table 1.1.

**Competition and Cooperation**

Although there are important differences among sport, tourism, and leisure service organizations operating in the public, private not-for-profit, and commercial sectors, this does not mean that these sectors never relate to each other. In one respect, they may be competitors trying to serve the same markets, provide the same kinds of services, or compete in other ways. In another respect, they may be cooperating in enterprises and activities that provide mutual benefits. It would not be unusual, for example, to see similar aquatics programs offered to a community by the YMCA, the local college, and the city recreation department. In this case, the three agencies (representing public and private not-for-profit sectors) are competing directly for customers. On the other hand, the city and the YMCA may also have an agreement that youth soccer leagues will be offered exclusively by the YMCA, while the city recreation department will offer all softball and baseball programs in the community. Furthermore, a commercial local sport management firm might be contracted by both agencies to train and manage the officials and the umpires for both the soccer and baseball leagues, or cooperate with public and not-for-profit organizations in hosting a tourism-generating regional or national tournament.

Competition among public, private not-for-profit, and commercial agencies provides a number of benefits. They include the following:

- Greater choice for consumers (e.g., variety in program features, scheduling, location, price)
- Greater attention to high-quality service (necessary for maintaining competitive advantage)
- Greater ability to respond to increasing demand
- Greater opportunity to focus on specific market segments (i.e., establish a market niche)

Cooperation among public, private not-for-profit, and commercial sport and leisure service agencies also provides some benefits. They include the following:

- Operational efficiency (by reducing duplication of physical and human resources)
- Synergism (i.e., the total benefit of agencies working together can be greater than the sum of the benefits provided by each alone)
- A coordinated approach to the de-
A summary of finance-related similarities and differences among public, private not-for-profit, and commercial sport, tourism, and leisure service organizations

<table>
<thead>
<tr>
<th>Area of Contrast</th>
<th>Public</th>
<th>Private Not-for-Profit</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Usually government.</td>
<td>Private organization.</td>
<td>Private corporation.</td>
</tr>
<tr>
<td>Legal Authority</td>
<td>Through enabling legislation.</td>
<td>Through enabling legislation and designation of tax status.</td>
<td>Through incorporation (state and federal government recognition, regulation, and protection).</td>
</tr>
<tr>
<td>Mandate</td>
<td>Serve social welfare and commonwealth needs of all citizens.</td>
<td>Serve specific social welfare needs or leisure interests of a specific population.</td>
<td>Realize maximum return on investment through service to most profitable market.</td>
</tr>
<tr>
<td>Source of Funds</td>
<td>Taxes, grants, donations, earned income.</td>
<td>Grants, memberships, donations, fundraising activities, earned income.</td>
<td>Investors, creditors, earned income.</td>
</tr>
</tbody>
</table>

The delivery of sport, tourism, and leisure services in the community is achieved through a system that includes organizations operating in the public, private not-for-profit, and commercial sectors. Public agencies have a clear social mandate and are supported by public funds, especially tax revenues. Private not-for-profit agencies do not receive tax dollars to fund their operations, but rather seek funding through donations and enterprise activities. They may, through service fees and other fundrais-

- Conversion of competitive energy to service energy

**Summary**

The delivery of sport, tourism, and leisure service in the community is...
ing activities, generate profits; but those profits are used to maintain the organization and sustain other non-profitable activities or services. Commercial sport, tourism, and leisure service organizations are motivated by profit and an expected return on investment. All business activities in the commercial sport, tourism, and leisure organization are ultimately expected to generate a profit. Although the three sectors differ in other ways, those differences do not deny them the opportunities for direct competition and cooperation in service delivery.