The business environment of sport organisations: A review

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The purpose of this review was to critically discuss an environmental analysis that considers the needs of sports organisations. The main objectives were to discuss the determinants in the micro environment, the market environment and the macro environment that will influence the strategic management and the development of a business strategy. Sport has progressed from a pursuit of leisure to a multi-million industry and due to this shift, the need for sound commercial business principles in managing, developing and promoting sports organisations has increased. Studies have found that the characteristics and historical culture of sport make the sports organisation unique in the sense that it requires adapted commercial business principles when conducting strategic management. Sport is increasingly becoming more commercialised and the need for sound management principles is apparent. Due to the unique nature of sports organisations, it is clear that business-management principles, such as strategic management and environmental analyses, have to be adapted to suit the needs of the sports organisation. Previous literature was collected and synthesised to form an analytical framework of the sports' organisations environmental analysis.

Key words: Business management, strategic management, environmental analysis, sports management, sports organisations.

INTRODUCTION

Sport has progressed from a pure pursuit of leisure to a multi-million dollar industry (Chadwick, 2009:191). Sports, in all likelihood, possesses a richer history than any other form of human activity – they have developed across the world, along with the human race, as a ceremony, a celebration, a physical pursuit, a leisure activity and, more recently, a business (Chadwick, 2009:191). Since the turn of the century, prodded by technology and media developments, government regulations, internationalisation and globalisation as well as a dominant free-market system, more and more sports organisations have found the pursuit of a business-orientated structure successful (Chadwick, 2009: 191). The management of sports organisations is viewed from two contrasting philosophical approaches: at the one side of the continuum, sport is seen as a unique cultural institution with a host of special features, including a rich history, emotional connections, tribal links and social relevance that standard business practices will only erode, and on the other side, sport is viewed as nothing more than a generic business enterprise subject to government regulations, market pressures and customer demands (Smith and Stewart, 2010:1). Sport has essentially become a unique cultural institution that operates in a commercial environment (Smith and Stewart, 2010:2).

Research (Beech, 2004; Chadwick, 2009; Maltese, 2008; Smith and Stewart, 2010) has shown that a more business-orientated sports industry requires sound commercial business principles in managing, developing and promoting sports organisations if the industry is to be profitable. However, it has also been found that the unique characteristics and deeply rooted historical culture found in sport make the sports organisation unique in the sense that it requires adapted commercial business principles (Shilbury et al., 2008:218).

The unique adaptation of management to the needs of the sports organisation is even more applicable when it comes to the strategic management of the organisation. Managers should strive to not only preserve sport as a cultural phenomenon, but to also ensure the sustainability
of the organisation by focusing on the profit motive (Beech, 2004). Limited research has however been done on the business environment of sports organisations as a holistic concept and its application to the strategic management of the sports organisation. Without a business environment analysis, based on proper business-management principles, no organisation can engage in strategic management. The aim of the research reported on in this article was to synthesise previous research regarding environmental analyses, so as to critically review the elements within sports organisations business environments.

The researcher aimed at compiling a comprehensive review of the empirical information available on the business environment of sports organisations. The review is structured as follows: Firstly, the concept of the environmental analysis of the sports organisation are discussed by focusing specifically on the micro environment, the market environment and the macro environment. The article concludes with a discussion of the theoretical and managerial implications and directions for future research.

THE BUSINESS ENVIRONMENT OF SPORT ORGANISATIONS

Researches by Beech (2004), Chadwick (2009), Maltese (2008) and Smith and Stewart (2010) has shown that even though sports organisations would benefit greatly from following commercial business principles such as utilising strategic management, they need to adapt such principles to suit their specific needs. Smith and Stewart (2010:3) further identified several features of sport that influence the effective management of sports organisations and that have to be taken into account when utilising commercial business principles. These features are highlighted below:

1. Sport is a heterogeneous and ephemeral experience caught up in the irrational passions of the fans, commanding high levels of product and brand loyalty, optimism and vivid identification.
2. Sport, in general, favours on-field winning over profit.
3. Sport is subject to variable quality, which in turn has implications for the management of competitive balance and anti-competitive behaviour.
4. Sport has to manage a fixed supply schedule.

Due to these fundamental and deeply rooted differences, sports organisations find that the traditional business environment analysis lacks depth and suitability for the organisation’s needs. The purpose of the current research was therefore to synthesise previous research on the business environment analysis that highlighted the different aspects and unique needs of the sports organisation.

THE MICRO ENVIRONMENT

The micro environment can be defined as the organisation itself and it is also the environment over which management has the most control (Smit et al., 2007:61).

The management function of sport

An important consideration when commercialising a sport is the fact that most sports are deeply socio-culturally embedded (Beech, 2004). This element creates highly distinctive and unique challenges for sports managers and sports organisations. Due to intense fan loyalty, many sports organisations are faced with the juxtaposition between major commercial and management opportunities and the constraints brought on by history and heritage. Sports organisations are faced with the challenge of extracting commercial value from their brands without compromising the intrinsic integrity and spirit of the game (Smith and Stewart, 2010:6). This gives rise to the question of whether or not sports management as a business is indeed a rational economic activity. Many corporate companies are involved in various sports as benefactors and engage in sports sponsorship on the basis of the ‘hobby motive’. If one considers this, sports management is likely to have a social-psychological foundation as much as an economic foundation.

Sport is concerned with beating the competition, sharing revenue and channelling the passions of both the athletes (who in essence are the organisation’s employees) and the fans (the customers) (Smith and Stewart, 2010:2). Athletes are considered the main assets of the organisation, as they are instrumental in attracting fans, sponsors and media exposure. It is therefore no surprise that the service deliverers (the sportspeople) earn substantially more than their immediate supervisors, the organisations’ managers. For example in 2009, David Beckham earns $33 million a year, whereas the highest paid manager in the Premier League, Arsene Wenger from Arsenal, earns significantly less at $6.6 million a year (Slater, 2009:1).

The main difference between sports organisations and normal business organisations is that sport is in the business of uncertainty (Chadwick, 2009:191). The essence of sport is the uncertainty of the outcome associated with a contest between individuals or teams. This uncertainty that no one really knows who is going to be victorious is what draws so many people, groups and organisations to sports. If uncertainty then becomes the essence of sport, preserving this uncertainty is the essence of sports management and the sports organisation. There are currently two models of sports management: a highly regulated model that originated from sports organisations in the USA where salary caps, draft picks and franchise locations are used to maintain
uncertainty, and the more laissez-faire approach used mainly in Europe, where sport functions independently and issues of uncertainty are addressed periodically by governing bodies through interventions (Chadwick, 2009:192). The foremost problem with both these models is that they are reactive in nature. Proper care should be taken to ensure that sports management becomes more progressive, proactive and follow strategic management guidelines with the use of tools such as a SWOT analysis (Chadwick, 2009:194).

It has been established that uncertainty is the basis of sport, but without competition any sport would certainly fail. One of the biggest challenges for sports management and sports organisations lies in the notion that individuals, teams and groups will need to coordinate their activities (Chadwick, 2009:194). Sports organisations actively need to engage with each other to fulfill their central purpose, a concept almost unheard of in other industries. Collaboration between organisations is key to the success of the members involved and ultimately also of the sport itself (Chadwick, 2009:194). A concept that ties in closely with collaboration is the measurement of performance, which exposes sport to a level of scrutiny one would not identify in other industries. This scrutiny is exacerbated by media coverage and the general interest humankind has in sport. Technological advancements have made it possible to measure increasingly specific details of sports performance, increasing the importance of this element in sports management (Chadwick, 2009:192).

Financial performance has become a tricky aspect as sports organisations seek to buy the best athletes available while making a profit or just breaking even (Chadwick, 2009:194). There is increasing tension between the effectiveness of on-field and off-field performance, which needs to be addressed. Because of sport’s profound effect on communities, social cohesion, identity and self-esteem, health and lifestyles as well as the environment, it is imperative to establish and employ other methods to measure the performance of sport to ensure that sports organisations fulfil all of their obligations and not just financial ones. It is vital to incorporate a stakeholder analysis when determining the performance of an organisation. Stakeholders that should be considered include the media, athletes, sponsors, institutions, spectators, cities, suppliers and the organisation’s owner (Maltese, 2008:10).

The marketing function of sports organisations

Sports marketing can roughly be defined as all of the activities designed to meet the needs and wants of sports consumers through exchange processes (Fullerton and Merz, 2008:90). According to Bruce and Tini (2008:108), sport has a unique marketing approach, as most of its messages and images are conveyed through media coverage as opposed to more traditional advertising and sales campaigns. Even though most media coverage regarding sport is positive, these interests tend to become more problematic in high-profile scandals, which can become very damaging to the sport involved (Bruce and Tini, 2008:108). Negative publicity can seriously damage the reputation and popularity of the organisation and affect performance of the organisation in areas such as attendance, merchandising, sponsorship and endorsement deals. In crisis situations, the sports organisation should make use of diversion to minimise the damage. This allows the organisation to utilise the intense relationship between fans and athletes, portraying the athletes as innocent victims and thereby reducing the negative publicity received (Bruce and Tini, 2008:109).

With the commercialisation of sport, mass media and sport have become so inextricably linked that they function interdependently (Rowe, 2001:9346). There have been numerous debates on the effect that this interdependence has had on the cultural fibres of sport. Various sports codes have been modified to ‘fit in’ with the requirements television has put in place. The introduction of tie-breaks in tennis and one-day cricket games is evidence of this modification process to make sport more ‘telegenic’ and commercially valuable. Despite this, there are strong indications that sport will continue to provide content for mass media applications. However, it is crucial that the processes of industrialisation, capital accumulation and mediatisation are transforming sport and its cultural basis should be carefully analysed to ensure that sport does not become a product of the media in the quest to provide valuable content (Rowe, 2001:9350).

THE MARKET ENVIRONMENT

Managers of sports organisations have the additional management challenge to find sponsors. The sourcing of sponsors is crucial for the survival of the organisation and in many organisations sponsors are the primary source of income and therefore one of the sports organisation’s biggest and most important suppliers (Berrett and Slack, 2001:21). The importance of sponsorship is becoming even more evident as governments around the world decrease their funding to sports organisations (Berrett and Slack, 2001:22). This shift to sponsorship-generated funds is likely to present a new set of management problems. Once an organisation becomes reliant on sponsorship funds, the sponsor’s needs become increasingly more prevalent than other stakeholder needs. This can become a source of conflict, as organisations have to pursue goals in accordance with the needs of members, client groups and in some cases also the government simultaneously (Berrett and Slack, 2001:22). In order to meet this particular challenge, sports organisations will
need to develop strategies in the area of sponsorship and gain greater understanding of the reasons why corporations become involved in sports organisation (Berrett and Slack, 2001:23).

THE MACRO ENVIRONMENT

The international environment

Sport has always exhibited an international dimension, but this dimension has intensified in recent years (Thibault, 2009:4). With the advent of globalisation, associations such as the ASOIF (Association of Summer Olympic International Federations) are gaining increasing significance as members from different parts of the globe need to coordinate their different functions and forms of organisations.

The fundamental aspect of sport, that is the uncertainty of outcome and competition, is being affected dramatically by the globalisation of sport, especially as larger sports organisations that can operate on a global scale are ideally positioned to enter new markets and obtain useful resources in this manner (Chadwick, 2009:194). The globalisation of sports organisations has given rise to numerous topics such as competitive balance, governance issues and competition regulations. One of the biggest issues is how to convey sport tonew markets with no socio-cultural heritage relating to the sports code. In these markets, it is important to satisfy the needs of the local market, rather than to homogenise diverse populations with the same sports franchise. It is important to ensure that the corporatisation of sport does not lead to the detriment of the core product of sport – the uncertainty of the outcome (Chadwick, 2009:295).

The technological environment

If one looks at the sports organisation’s technological environment it is apparent that the media has become an important ally to the sport manager. Because sport appears to be responsive to technology, rather than developing technology for its own purposes, it is important for managers to understand the processes behind the change in technology and also how to utilise new technology creatively for the sports organisation’s own gain (Chadwick, 2009:295). Sport can provide meaningful content for mobile technology, which entails the use of cellular communication technology to distribute information to consumers via cellular phones. The challenge is to provide creative content that will enable a sports organisation to secure a differential advantage over its rivals. A good example of such content is that of ESPN Mobile, which recorded 98 million visits and 520 million page views during the 2010 Soccer World Cup. Their online page recorded an average of 114 000 people per minute per game, with the final match receiving 355 000 visitors per minute, ESPN’s largest average audience ever (Gorman, 2010). In order to create this differential advantage through mobile technology, it is important for sports organisations to be close to the market, to understand their customers and to adopt innovative approaches to content generation.

Social network sites such as Facebook and viral marketing (the use of individuals to spread the marketing message in electronic form) should also be used to promote sports organisations and can make valuable contributions to the organisational and commercial development of sport. These platforms as well as sports websites are powerful public relations tools that allow the sports organisation to build an ideal relationship with the public and its members (Woo et al., 2008:169). The internet is also being used to meet sport fans’ needs and gratifications and provides valuable insights that enable marketers to plan niche marketing campaigns and address strategic management issues (Woo et al., 2008:170).

Incorporating message boards into websites creates bidirectional communication that is useful in building relationships through dialogue and interaction. It has been found that sports fans and consumers are eager to interact with their favourite sports organisation and will actively contribute to new information on the site and express their thoughts and opinions (Beech et al., 2000:43; Woo et al., 2008:170). What makes this an even more popular choice for communicating with fans is the fact that websites are able to equalise the power between the organisation and the fan, allowing the communication to become two-way symmetrical and ensuring optimal interaction and quality relationships between the fan and the organisation (Woo et al., 2008:170). Websites also perform other value-adding activities, such as making tickets and merchandise available for online purchasing and providing information on teams, games and the sport itself (Beech et al., 2000:42).

The social environment

A trend that is sure to have an important impact on sports organisations and the management of these organisations is the increased interest in living a healthier lifestyle (Henderson, 2009:57). Sports can be considered as a significant motivator for physical activity, as it is enjoyable and social. Furthermore, sports also provide valuable developmental benefits in terms of social, psychological and physical development for youths and research has shown that if practised early in life, children will continue to be active later in life, reaping additional health benefits (Henderson, 2009:63). The challenge for sports organisations lies in the promotion of sport as a fun activity in order to increase physical activity levels that will enable society to reap the health benefits and...
sustain these benefits over a period of time. It should be noted that this type of promotion is not viable for all sports managers and should be practiced by those sports managers responsible for recreational sports codes (Henderson, 2009:64). Even though sport holds important high-performance and competitive aspects for society, the promotion of sport – with emphasis on physical and mental health – will become more and more crucial to the survival of sports organisations. It is clear that sports organisations should incorporate leisure and recreational components into their strategies so as to cater for the changing needs of society (Henderson, 2009:64).

The proliferation of female athletes and the issue of gender equality will play an even more important role in the management of sports organisations in the years to come (Skirstad, 2009:202). With many reports of females being under-represented in sport and gender imbalances in management levels, changes in sports organisations’ structures by adopting gender equality policies are encouraged from governmental positions (Skirstad, 2009:199). A study in the UK by White and Kay (2006:465) found a positive correlation between the increasing representation of women on boards and in senior administrative roles and the professionalisation and commercialisation of sport. The motives behind the appointment of women on boards that govern predominantly male sports codes, such as football, are linked to public business crises such as allegations of fraud, which require feminised signifiers of trustworthy leadership and integrity. This role of female board members is becoming increasingly important as media scrutiny of sports organisation continues to rise (Fullagar and Toohey, 2009:199).

The physical environment

Sports organisations have become a vital part of society and with their conversion to commercialisation, the need to practice strategic management has become more and more apparent. Research gaps regarding the adoption of strategic management in sports organisations have

The economic environment

Since most sports enthusiasts are not professional athletes and pursue sport primarily as a leisure activity, sport relies heavily on the economic environment. Consumers’ discretionary income is directly related to the economic environment and will fluctuate as changes occur within this environment (Smit et al., 2007:69). Wicker et al. (2010:1) have found that members of non-profit sports clubs are big spenders in terms of their chosen sport. Amounts spent on different sports types and activities differ in terms of the type of sport and are also influenced by the income group, level of education and the time spent on the sport by the individual. Generally, individuals in higher-income groups, with tertiary educations and seniority in the sport spend higher amounts on sport, whereas individuals in lower-income groups spend less, although still significant amounts (Wicker et al., 2010:10).

The spending patterns of members of non-profit sports organisations is an important element to manage, as it was found that most members will contribute financially towards their sports clubs and were able to do so, if they were asked. It is therefore crucial to determine the effect of the economy on the spending patterns of members, as it can affect the lifeblood of sports organisations and their sustainability significantly (Wicker et al., 2010:11).

CONCLUSION

Sports organisations have become a vital part of society and with their conversion to commercialisation, the need to practice strategic management has become more and more apparent. Research gaps regarding the adoption of strategic management in sports organisations have
however been identified. To ensure that sports organisations continue to thrive as commercialisation takes place, strategic management and the environmental analysis have to be adapted to suit the specific needs of sports organisations.

As this review summarised previous literature, recommendations made are somewhat restricted in scope. The concepts discussed do however provide sports organisations with a starting point for strategic management and clarify the unique needs of sports organisations to some extent. Further research is however required to determine which elements will have to be taken into consideration when conducting environmental analysis.

REFERENCES


