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ATHLETES—THE INVISIBLE RESOURCES OF SPORTS ORGANIZATIONS

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You can't manage what you can't measure.

You can't measure what you can't describe.

Robert S. Kaplan – David P. Norton

Abstract: Sports organizations must prepare an annual report on their operation and assets, pursuant to the current Act on Accounting. However, when preparing this report, one must face the difficulty of defining the value intellectual assets and human resources represent, and the impossibility of its inclusion in financial statements. Therefore there is a significant difference between the value shown in accounting and the fair value of sports organizations.

Keywords: sport organization, intangible assets, staff costs, rights of property value

INTRODUCTION

The Act on Sports differentiates between the definition of amateur and professional athletes. In this essay, the appearance of both professional and amateur athletes, and that of sports staff were studied. There are two parts in reports where athletes may appear: in the balance sheet among immaterial assets (gaming rights), and in the profit and loss account, among staff costs. Significant differences can be observed between professional and amateur athletes both regarding the method and length of contracting and the regulation of transfers. Professional athletes may enter into employment contracts or services contracts for a term of maximum five years and their gaming rights are transferred to the sports organization. In case of amateur athletes, value-based approach is influenced by two important factors regulated by the Act on Sports. One factor is that amateur athletes may conclude sports contracts for a term of maximum of one year; the other is that amateur athletes may not receive remuneration from their sports organizations. Due to this regulation, the gaming rights of the amateur athletes cannot appear among the assets of the organizations, because the only way to do that would be showing it among intangible assets, but these may include assets serving the activities of organizations for over one year. Another way of determining the value of athletes would be a cost-based approach, i.e. organizational value would be calculated indirectly on the basis of the costs spent on the athletes. Typically these costs do not appear, either, as staff cost in the financial statements of sports organizations, since amateur athletes may not receive wages or salaries or any other employee benefits. If the reimbursement of other costs (including the coach and

competition equipment), the cost related to competitions, travel, training camps appear, they are indicated as material cost. In case of youth training associations they do not appear even there because costs or parts of them are paid by the athletes (or their families). Entering the professional experience of coaches poses a similar problem; one can only do it indirectly on the basis of the profit or loss account. But the aforementioned problem exists here as well. If the coach is an entrepreneur, the consideration paid for them shall be shown among material costs and not staff costs.

PROBLEMS OF EVALUATING INTANGIBLE ASSETS

The management of intellectual resources or intangible assets, that is, invisible assets has gained growing attention in business in recent decades (Sveiby, 2001; Boda-Szlávik, 2005). To date, CEOs and economic experts have also realized the fact that these assets represent a significant value of the organizations (Davenport-Prusak, 2001; Effron, 2004). One of the reasons for this greater attention is the advancement of the services sector. In recent years the state support of sports has increased considerably in Hungary. However, due to the characteristics of the sector, since we can primarily talk about services here as well, an increase in value is difficult to show. Naturally, it appears in terms of secondary indicators such as the international results of the different branches of sport, and the increase in employee headcount (infojegyzet, 2014/16). The “economic value” of associations and sports organizations has increased due to investments and additional resources that could be spent on current assets, but the success of the athletes, or the

Table 1. The total market value can be seen to consist of visible equity and three kinds of intangible assets (Sveiby, 2001)

Visible equity (book value) Tangible assets minus visible debt	Intangible assets (stock price premium)		
	External structure (brands, supplier and customer relations)	internal structure (the organization; management, legal structure, manual systems, attitudes)	Individual competence (education, experience)

knowledge and experience of the sports staff, that is, the invisible assets still cannot be shown.

One of the greatest challenges of knowledge-based societies is to identify and evaluate the components of capital and resources that represent value for organizations. One of the starting points in the evaluation of assets was the work of Karl Erik Sveiby. His fundamental classification is detailed below (Sveiby, 2001).

THE THREE MAIN GROUPS OF INTANGIBLE ASSETS

Individual competence means the fact that people create tangible and intangible assets in multiple ways. However, these are the properties of the employees and not the organizations. Therefore when showing the real economic value of a business, people should be included in the balance sheet. The problem is that it is extremely difficult to express this competence in figures, and not least it also gives rise to several ethical problems.

As for the Hungarian sports sector, we should add that the value of associations are partly determined by the qualifications of employees, coaches and other sports staff. The attitude of players and athletes is also a very important element here, as well as the knowledge and examples of the “older” generations.

Internal structure consists of patents, concepts, models, and computer and administrative systems. These are either created by the employees or are acquired from elsewhere in the forms of licenses, computer programs, manufacturing processes. In terms of sports, it would include preparation and training plans and accrued experience. It is a characteristic of the evaluation system in accounting that fair value can be well approached when intangible assets are purchased; while systems planned, developed and created internally do not even appear in financial statements, or, if they do so, not at their fair value.

External structure consists of the relationships with customers and suppliers. In case of sport, it includes fans, the immediate environment of the team. It also consists of brand names, trademarks, and the reputation or image of the company.

INTANGIBLE ASSETS IN FINANCIAL ACCOUNTING

Only few of the intangible assets discerned by Sveiby appear in traditional financial statements. The Hungarian Act on Accounting contains the following definition and classification. Intangible assets are assets other than tangible assets; they have value and their purpose is to directly serve the undertaking's activities and operations on a long-term basis. They are marketable and usually embody rights of property value. Their value depreciates, that is, decreases continuously, therefore ordinary depreciation shall be calculated among the costs of production or activity; thus intangible assets have gross and net values.

Types (balance sheet entries):

- Capitalized value of original contribution/restructuring
- Capitalized value of research and development
- Rights of property value
- Goodwill
- Intellectual property

Within this classification, gaming rights, which might be of interest from the viewpoint of sports, are included in other rights of property value. The entitlement of gaming rights of professional athletes may be lawfully transferred to sports organizations for the length of the employment contract or any similar contract. A further condition of transferring the entitlement of the gaming rights is that professional athletes must hold a competition license issued by the sports federation.

In accounting systems, a bit more detailed information can be found about human resources not included in intangible assets with the help of *notes on the accounts*. However, these notes show the fair value of these resources in a very limited way. Intangible assets and human resources may appear in notes with the following parameters:

- The total amount of remuneration payable for executive staff, the board of directors or members of the supervisory board following the financial year.
- The average wage costs and other related employee benefits of the statistical number of employees employed in the subject year, each in a breakdown of groups of staff.
- The full amount of any financial liabilities which are of importance from the point of view of evaluating the financial situation, but are not shown in the consolidated balance sheet. (In relation to employees, these may include future pension and severance pay obligations in particular.)

According to the International Accounting Standards, intangible assets are “nonmonetary assets without physical substance that are held for use in the production or supply of goods or services or for rental to others, or for administrative

purposes, which are identifiable and are controlled by the enterprise as a result of past events, and from which future economic benefits are expected to flow.” (IAS 38)¹

The key criteria for determining whether intangible assets are to be recognized are

- Whether the intangible asset is identifiable;
- Whether the use of the intangible asset is controlled by the enterprise;
- Whether future economic benefits can be expected to flow to the enterprise; and
- Whether the cost of the asset can be measured reliably.

However, the International Accounting Standards also limit the scope of intangible assets which can be shown in financial statements. The provisions of the accounting standard quoted above (IAS 38) stipulate “... items related to staff or market situation that do not qualify as intangible assets include technical knowledge of staff, market shares, portfolio of clients or customer relationships, due to the fact that the entity would find it impossible to fully control these resources (is only able to influence them to some extent and with uncertain result). Staff or customer loyalty for an indefinite length of time cannot be guaranteed unless protected by enforceable legal rights.”²

METHODS OF DISPLAYING INTANGIBLE ASSETS, INCLUDING GAMING RIGHTS

Valuating, or in other words, determining the exact value of intangible assets is an extremely difficult task. Based on Hungarian accounting principles and the legal requirements of appraisals, these assets are recorded in the balance sheets at much suppressed prices. However, there are certain methods with the help of which one can achieve a value closer to reality in case of some assets (although a part of them cannot be applied current accounting system).

In general, intellectual property assets (IP assets) are valued as follows:

- The simplest way is to register them at their book value, that is intellectual products and properties are registered at their purchase / acquisition value at their purchase or acquisition date.
- On the principle of substitution one can assess what investment should be done in order to conduct the particular activity, supposing the IP asset in question did not exist.
- The license-based approach derives from the royalties of inventions, patents and industrial design of assets protected under industrial law and copyrights.
- The most general approach is income-based, and is based on the principle that an IP asset must generate economic benefit which can be defined on an annual basis. If this amount is multiplied by the number of years of the useful economic life of the IP, the earnings of the IP asset in question can be determined.

MATERIAL AND METHODS

The topic was explored by the method of document analysis. On the one hand, the appearance of human resources in financial statements was examined; on the other hand methods of showing invisible wealth components of organizations were studied. The appearance of costs and expenses spent on young athletes conducting sports activities in an organized form on organization, sports association level was also in the focus of our study.

The data of two branches of sport, football and swimming were analysed, involving six sports organization respectively (N=12). Beyond doubt, football is the most popular sport in Hungary, and also has the highest number of licensed payers. The other branch of sport chosen was swimming, which is a branch of sport distinguished by the Hungarian Olympic Committee (HOC) and has been among branches of sport which received the highest state subsidy for their operations in recent years (as it has been one of the most successful Olympic sports). In our sample, the first six sports organizations of the rank order were examined. As for football, the six selected clubs were the first six organizations in the rank order of the 2013/14 season.³ In terms of swimming, we focussed on the associations in the first six places in the rank of associations determined by the Hungarian Swimming Association.⁴

FINDINGS

Fundamental differences were found between the two branches of sport. From the viewpoint of organizational form, the first six clubs of the football championship, and all the other teams in the championship, are sports enterprises, i.e., private limited companies or limited liability companies. Regarding the profiles of the organizations, activities in connection with the football team, and, in particular, their operation in the first division, appear. The Hungarian Swimming Association determined the rank on the basis of the success of the swimming departments. These organizations typically operate in the form of sports associations, but are very different, and have one or two, sometimes even more departments.

ANALYSIS OF FINANCIAL REPORTS OF FOOTBALL TEAMS

Since they operate in the form of financial enterprises, football teams shall prepare a simplified annual report or an annual report on their operation. Its compulsory content elements are the balance sheet, the profit and loss account and the notes on the accounts. Table 2 shows the two most important profit and loss categories attached to athletes and sports staff.⁵

¹ IAS: International Accounting Standards (generally used in Europe)

² Mackenzie et al., 2011

³ <http://www.mlsz.hu/tabella/?d=0&evad=12&szervezet=24&verseny=10689>

⁴ http://musz.hu/sites/default/files/%C3%96sszes%C3%ADtett_pontverseny_2013.pdf

⁵ <http://e-beszamolo.kim.gov.hu/>

Table 2. Profit and loss categories attached to athletes and sports staff

		<i>Rights of property value 2012 (thousand forints)</i>	<i>Rights of property value 2013 (thousand forints)</i>	<i>Staff costs 2012 (thousand forints)</i>	<i>Staff costs 2013 (thousand forints)</i>
1.	Debrecen (DVSC Futbalszervező Zrt)	45 278	14 693	510 114	465 522
2.	Győri ETO (Győri ETO FC Kft)	76 164	51 577	725 821	908 789
3.	Ferencváros (FTC Labdarugó Zrt)	227 130	139 095	984 166	1 506 969
4.	Videoton (Fehérvár F.C. Kft)	562 097	536 857	1 746 675	1 928 464
5.	Diósgyőr (Diósgyőr Futball Club Kft)	121 711	138 855	547 748	644 772
6.	Haladás (Szombathelyi Haladás Kft)	20 227	11 591	207 974	245 347

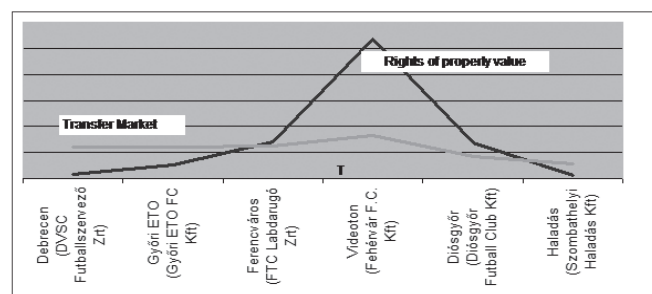
With respect to rights of a property value, significant difference can be observed between teams. The data range from HUF 20 million to HUF 562 million. The table demonstrates there is no deterministic link between the value of the rights of a property value and the rank achieved in the championship. When inspecting the financial reports of the six teams, we find only one team, namely Diósgyőr Futball Club, shown in the balance sheet at market value. In 2013, their rights of a property value is HUF 138,855 but the value adjustments of the rights of a property value was HUF 834,699, that is the value of both items show the fair value of the gaming rights of their players on 31th December 2013 (HUF 973,524). The other five clubs do not use this option presented by the Act on Accounting. In these cases, the gaming rights of players are registered at their cost value (purchase value) in reports, and as such, do not follow the changes in market value. The other problem which distorts the data generated is the value of internally trained players. No efficient method was devised, although registering at market value might be a solution. In case of internal training, there is no purchase value, thus value of players does not exist, either. Internal training may be approached from a cost-based viewpoint. In this case the fact the internal training is not provided by the club, which operates as an enterprise, but an academy, association or foundation linked to it, may cause problems. In addition to rights of a property value, it is worth examining whether there is an obvious link between the Hungarian financial report and the transfer market value of players.

Table 3. The transfer market value of players

	Transfer Market / million EUR	
1.	Debrecen (DVSC Futbalszervező Zrt)	12,10
2.	Győri ETO (Győri ETO FC Kft)	12,10
3.	Ferencváros (FTC Labdarugó Zrt)	12,38
4.	Videoton (Fehérvár F.C. Kft)	16,35
5.	Diósgyőr (Diósgyőr Futball Club Kft)	8,33
6.	Haladás (Szombathelyi Haladás Kft)	5,48

When examining the clubs, we can establish that there are significant differences in the Hungarian registration of rights of a property value, while the differences between the transfer market values of clubs are considerably smaller. On the basis of both valuation approaches, it is Videoton which has the highest value, but the proportion of the difference is smaller than the value in the financial report.

Figure 1. Transfer Market and Rights of property value



We can see significant differences in terms of staff cost as well. However, in itself it is unable to demonstrate how much the salary of players, other sports staff and technical staff was. Staff cost and headcount shall be detailed in the notes on the accounts pursuant to the Act on Accounting. We have examined the notes of the six clubs and our findings were: Debrecen had an average headcount of 54 people, out of which 34 were athletes. In case of Győri ETO FC, the number of staff was 134, belonging to different categories such as football, league, young players, facility, management. Ferencváros had 128 employees, 127 of them had intellectual professions. Similarly, in case of Diósgyőr 54 employees were intellectual professionals. The only information Videoton recorded that there were 105 employees, Haladás also displayed the total number of staff only, which was 56 people. Data show that Debrecen Diósgyőr and Haladás had similar headcounts: 54, 54 and 56 respectively. However, in case of these teams the difference between the staff cost was more than double.

Table 4. Profit and loss categories attached to athletes and sports staff

		Section	Intangible assets 2012 (thousand forints)	Intangible assets 2013 (thousand forints)	Staff costs 2012 (thousand forints)	Staff costs 2013 (thousand forints)
1.	Kőbánya SC (Kőbánya Sport Club)	8	0	0	20 366	29 229
2.	A Jövő Sport Club Veolia	1	3	0	0	3 018
3.	Vasas (Vasas Sport Club)	> 8	1516	2729	174 355	230 807
4.	Szegedi Úszó Egylet	1	0	0	2 206	1 675
5.	BVSC-Zuglói	11	0	0	146 577	158 452
6.	Hullám 91 ÚVE	1 (2?)	428	0	7 625	8 206

ANALYSIS OF FINANCIAL REPORTS OF SWIMMING ASSOCIATIONS

From 2012 on, non-profit organizations shall submit their reports in a standard form due to changes in the Hungarian Act on the Freedom of Association, on Public-Benefit Status, and on the Activities of and Support for Civil Society Organizations.⁶ In addition to data provided compulsorily, it was also standardized what other data should be entered in the notes on the accounts, which has a compulsory format. On the basis of these notes it can be decided whether the given non-profit organization meets the requirements of the public-benefit status, and data become comparable.

Compulsory reports demonstrate that rights of a property value do not appear as a separate line, only a total value is displayed under the name of intangible assets. However, in most cases no data is given for intangible assets. According to the Act on Sports, the reasons are as follows: upon establishment of membership, a sports contract, or a student relationship, amateur athletes shall concede their license to their sports organization, sport school or the foundation undertaking the training of young athletes for the duration of this legal relationship free of charge. Athletes of the national teams who conduct sport activities at sports associations and are employed by way of employment contracts or services contracts do not appear, either, since individual sports are much less regulated than team sports. The volume of staff cost suggests that coaches do not necessarily have employment or services contracts, especially in case of single-department clubs. A staff cost of HUF 3 million HUF means a monthly net salary of approximately HUF 170,000. Supposedly, these clubs have supply contracts with coaches, which are shown as material cost. Material cost shall not be detailed in the financial report, thus it is impossible to say what items this include, since it might be rent, transport charges, amounts paid on the basis of supply contracts, purchase of assets. Material cost also includes sports equipment provided for athletes. As a whole, the value of staff cost has increased in recent years. In case of multi-department associations this

change took place parallel with the support of spectacular team sports, since associations had the chance to pay sports staff from the amount of corporate tax. In case of branches of sports which had a distinguished status in 2013, this change is about to take place now. Part of the resources, namely 30% of the amount of the subsidy may be spent on staff cost. In addition, the costs of distinguished coaches do not appear in their own associations, because their employer is the Hungarian Olympic Committee.

The review of the notes on the accounts of clubs reveals the following findings. The swimming department of Kőbánya SC consists of 305 members. This is the most successful department of the association. The athletes of the association include such professional sportsmen as László Cseh and Péter Bernek. 24 gold medals, 12 silver medals and 7 bronze medals have been won in international competitions. Two of the association's coaches, György Turi and György Krajnyák are members of the programme for distinguished coaches. In case of Jövő ('Future') Sport Club the notes on the accounts do not contain additional information, but the president of the association, Zoltán Verrasztó, M.D. is also member of the programme for distinguished coaches. The only additional information Vasas Sport Club displays is that the headcount of the association is slightly over 2,000, but the report does not contain any breakdown by departments. The headcount displayed in the report of Szegedi Úszó Egylet (Swimming Association of Szeged) is 133. In case of BVSC, the headcount of athletes is not displayed, but the average employee number appears, this is 65 people. The format of the notes on the accounts is in compliance with the structure of the notes on the account of business associations. In the public benefit report of Hullám 91 Úszó és Vízilabda Egyesület (Wave 91 Swimming and Water Polo Association) swimming is defined as the fundamental goal, water polo is not mentioned. The association has 70 licensed competitors; the number of sports staff is not displayed.

As opposed to the notes on the accounts of enterprises, non-profit organizations are not compelled to show headcount figures, thus no full and accurate view is given on these. The notes on the accounts examine the proportion of staff costs,

⁶ <http://www.birosag.hu/allampolgaroknak/civil/tarsadalmi-szervezetek-es-alapitvanyok-nevjegyzeke>

if the public benefit status is important for the association. The amounts of supports and subsidies received must also be shown in the notes on the accounts. Associations do not use a standard method of providing these; one gives full details, the other applies combined categories (e.g. training of young athletes is entered, but not separated by divisions).

CONCLUSION

We can establish that the greatest value of sports organizations, i.e. the athletes and sports staff, does not appear in compulsory financial statements and in case of sports enterprises it may differ from fair value. This is the reason why the value of sports associations is unknown. Practically, the data important for sport do not appear separately in compulsory financial statements and public benefit reports, and either the number of athletes or that of sports staff cannot be established.

The Act on Sports might be appropriate for determining the compulsory data content of the notes on the accounts for sports enterprises and other sports associations. These documents should contain at least the following data: number of professional athletes, amateur athletes, coaches and sports staff. Employees, employed by way of employment contracts, should be separated from those with services contracts, and people with supply contracts should also be shown.

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