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**The effect of a sports institution's legal structure on sponsorship  
income: The case of amateur equestrian sports in Germany**

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# **The effect of a sports institution's legal structure on sponsorship income: The case of amateur equestrian sports in Germany**

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## **Abstract**

Choosing the legal structure of a sports institution is one of the key decisions that sports managers must make, in part because the legal structure influences the revenue composition of sports institutions. Based on platform theory and property rights theory, this paper suggests that members' associations receive higher sponsorship revenues than private firms. This study empirically confirms this assumption for amateur sports with data from a survey of equestrian sports institutions in Germany.

*Keywords:* Sponsoring, property-rights, platform theory, sport club

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## Introduction

The increasing success of English clubs in European professional football is currently driving a public discussion in Germany about the competitiveness of its local clubs (Franck, 2010b). Scholars have often cited the legal structure of the clubs as a core reason for their bad performance (Kicker, 2010). German football clubs are restricted by the 50+1 directive, which ensures that the clubs are organized as or at least dominated by *members' associations*. In contrast, the English clubs are free to select their own legal structures and, as a result, mainly choose to act as *private firms*. Judging by the English clubs' success in recent years, private firms appear to be superior to members' associations. However, a more sophisticated analysis is necessary.

The choice of legal structure is one of the key decisions that sports managers must make. To that regard, the managers of sports institutions currently have two options. They must decide whether a (non-profit) members' association or a (profit-oriented) private firm is the more suitable legal structure for their sports institution. Private firms are defined as profit-oriented institutions that fit the classic model of capitalistic, privately owned firms. Members' associations are characterized by their own legal personalities and non-profit status. No legal structure is superior in every respect. Rather, the choice of legal structure depends on tradeoffs as each legal structure brings certain advantages. For example, profit-oriented organizations are considered to be more efficient than non-profit organizations (Hansmann, 1986). In addition, private firms have easier access to the capital markets. In contrast, non-profit organizations enjoy higher credibility than profit-oriented institutions. The legal structure of sports institutions also impacts their revenue composition (Dietl & Weingärtner, in press). Professional sports clubs primarily derive their earnings from four different sources: match day/tickets, merchandise, broadcasts, and sponsorships (Deloitte, 2010). The influence of the legal structure on the varying weights of the institution's revenue sources can be seen by comparing the leading English club Manchester United, which is organized as a profit-

oriented private firm, with the German market leader FC Bayern Munich, which is structured as a non-profit members' association. Both clubs have a comparable overall budget of approximately €300 m. Although Manchester United generates 75% of its budget with broadcasting and match-day revenues, these sources contribute to only 45% of Bayern Munich's budget. However, the German club outperforms the English club with regard to sponsorships and merchandise: 55% of the total revenues are derived from these sources, whereas they contribute to only 25% of Manchester United's overall revenues (Deloitte, 2010).

The purpose of this paper is to determine whether these findings are universally valid and applicable to sports institutions in other types of sports and in the amateur market. Specifically, this paper analyzes whether sponsorship revenues differ in amateur equestrian sports depending on the legal structure of the sports institution. The theoretical framework of the analysis utilizes platform theory to explain the basic mechanisms of value creation activities, such as sponsorships with sports institutions, and to analyze the property rights situations for the different legal structures. The empirical evaluation is based on data related to the amateur equestrian sports institutions in Germany, which were originally assessed by the *Sports Development Report for Equestrian Sports in Germany* (Breuer & Wicker, 2011). The institutions in equestrian sports are particularly useful to this study, as both private firms and members' associations are members of the national governing body of equestrian sports in Germany. Thus, both types of institutions can be effectively compared for analytical purposes. Sponsorship is legal for amateur clubs in Germany.

Prior scholars have conducted a great deal of research on the governance and legal structures in (mainly professional) sports (e.g., Dietl et al., 2009b; Hoye & Cuskelly, 2007) and sponsoring (e.g., Bruhn, 2003). This paper adds to this research stream by combining the two fields of research and empirically proves the correlation between legal structures and sponsorships in sports.

The remainder of this paper is structured as follows. In section two, this study presents and discusses the theoretical framework as well as the prior research conducted in this area. The methodology and the data are explained in section 3. The paper finishes with a chapter on the results and presents the conclusion in the last section.

### **Theoretical framework and literature review**

The theoretical framework of this study is based on a combination of *platform theory* and *property rights theory*. Combining and applying these theories to the sports management field is a relatively new idea. For this paper, a joint approach is particularly useful because it builds a theoretical bridge between the value created by sponsorships and the effects of the different legal structures.

Platform theory explains the business models of companies or institutions acting as intermediaries between different market actors (Armstrong, 2006; Dietl, 2010). Specifically, this theory explores how the interactions among different market participants serve as the key driver of value creation (Lepak et al., 2007; Rysman, 2009). To define this value, Zeithaml writes, "Value is the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given" (Zeithaml, 1988, p. 14). Thus, value creation serves as a key factor for the generation of revenue within (sport) institutions. This theory has been applied to and examined within many different industries (e.g., Bakos & Katsamakas, 2009; Rochet & Tirole, 2002). For example, in the credit card industry, the merchants interact with their customers via the credit card platform or by recruitment websites in which the employers interact with the jobseekers (Eisenmann et al., 2006). Previous research in sports management has shown that professional sports institutions also act as platforms for value creation (Dietl & Duschl, 2009; Dietl & Weingärtner, in press). Value creation within professional sport clubs is primarily driven by the interactions among the different market actors, such as fans, media, teams/athletes, and sponsors (Dietl et al., 2009a). The institution itself provides the underlying platform or infrastructure. For example,

by building and maintaining a stadium or by setting up a team and taking part in a championship. Finally, value is created when a market actor (e.g., the sponsor) wants to interact with another market actor (e.g., the fans). Figure 1 shows the basic idea of value-creating platforms.

Insert Figure 1 here

To date, this approach has been applied to only the professional sports markets, but it can easily be transferred to the amateur sports sector. Amateur sports institutions, including equestrian sports institutions, are also surrounded by different market actors. In this case, the main market actors are the sponsors, the active sportspeople/athletes, the governments, the (local) media, and interested people/spectators. Additional stakeholders include the schools or the local craft enterprises, which could be added depending on the individual situation of the club, but these are not considered here. The equestrian club itself acts as a platform for the interactions among all of the listed participants. Imagine an equestrian club that provides practice and tournament facilities, such as a racetrack or a stadium, rents out horses on an hourly basis or horseboxes for people bringing their own horses. Amateur athletes can use these facilities to develop their skills. However, the equipment manufacturers act as sponsors of the club and promote their products to the athletes or spectators. For example, the sponsors may pay an equestrian club to allow them to construct a perimeter that features advertisements around the racetrack or the stadium. In addition, the spectators may pay for tickets to the tournaments to watch the athletes. In this manner, the equestrian club is able to create value by simply providing a platform for value creation. As for the other platforms (e.g., the aforementioned recruitment websites or credit cards), the value creation mechanisms and characteristics of each platform can be defined by the accompanying network effects (Eisenmann, Parker, & van Alstyne, 2008; Rochet & Tirole, 2003), the potential hold-up problems (Dietl, 2010), and the openness of the strategies (Rochet & Tirole, 2006; Rysman, 2009). The following three paragraphs analyze these characteristics in greater detail.

Network effects determine the value creation potential of the different platforms. The stronger these effects, the higher the value creation potential of a platform-mediated network. Network effects arise if the increasing quality or quantity of one market actor has a positive effect on the demand towards the network in general (Dietl & Duschl, 2009). The same side effects occur if the effect reaches the initial market actor. A sports institution such as an equestrian club with a growing number of active sportspeople attracts other athletes because it may have superior programs or supply better training facilities, which are in turn financed by the increasing number of membership fees and the higher economies of scale. For example, an increase of spectators starts a virtuous circle on that market side, as watching sporting events is a better experience if other people are there to watch and cheer for the same athletes. Cross-side effects may occur if the growth of one market actor leads to higher demand for the other market actors. For instance, the higher the number of athletes in an equestrian club, the more likely that the (local) media will report on the institution. High media coverage drives the public interest and, thus, increases the number of spectators attending various sporting events, such as tournaments. A large group of athletes and spectators and a large media presence encourage more sponsors to join the network and persuade the government to provide public funds to the club. Figure 2 summarizes the possible network effects related to amateur equestrian clubs.

Insert Figure 2 here

The decision to join a network, such as an amateur equestrian club, calls for a platform-specific investment by the new participant (Dietl, 2010). The investment of sponsors entails signing a long-term contract, whereas that of athletes requires one to pay various costs, such as an admission fee. With regard to equestrian sports, the loyalty and level of familiarity between an athlete and a horse can also be considered an investment because the relationship between the horseman and his horse is an important success factor in this sport. An individual investment locks the participants into the specific platform and makes them vulnerable to

hold-up issues. Hold-up problems occur if one contracting party is at the mercy of another after the initial investment is made. For instance, if an equestrian club heavily raises its hourly fees, then the athletes will be in a hold-up situation. These athletes have to choose between two alternatives. If they change the club, then they may lose the admission fee that has already been paid. In addition, they may have to familiarize themselves with new horses. In the alternative scenario, the athletes stick with the stud and pay the higher charges. For the sponsor, a hold-up situation will be even more disastrous. If many athletes leave the club after a fee increase, then the sponsor's audience will dramatically decrease. Because the sponsor's investment exists in the form of a long-term contract, he or she cannot simply leave the club together with a group of active athletes. A rational network participant will anticipate this danger upfront and refuse to join the network (Dietl & Duschl, 2009).

For participants, a common way to overcome the danger of hold-up problems is to choose a strategy based on openness. A platform can be considered *open* if there are no restrictions regarding the participation, usage, and development of the network (Eisenmann et al., 2008). In contrast, a *closed* platform imposes hurdles for each of these aspects. Open platforms enhance network mobilization because of the lack of potential hold-up situations for the participants (Dietl & Duschl, 2009). The openness of the platforms is not binary, but it may differ across the various market actors such that the platform ownership also has to be analyzed (Eisenmann et al., 2008). The media side of the platforms can be considered open, as there are no limitations with regard to the media coverage of amateur sport clubs. However, the sponsor side is closed because participation as a sponsor is restricted to those who sign a sponsorship contract and pay for the partnership. The choice of a specific legal structure influences the degree of openness with regard to platform ownership (Dietl & Weingärtner, in press). Therefore, the chosen legal structure is a part of the *openness* strategy enacted by the platform managers/owners.



The legal structure also influences the allocation of property rights. A property right can be defined as “a method of assigning to particular individuals the ‘authority’ to select, for specific goods, any use from an unprohibited class of uses” (Alchian, 1977, p. 130). Property rights theory is part of the new institutional economics and explains the rules regarding the usage of a specific good. (Picot, Dietl, & Franck, 2008; Richter & Furubotn, 2010) Previous studies have focused on different aspects of property rights, such as their allocation within large companies and their impact on corporate governance (e.g., Picot, 1981; Picot & Michaelis, 1984). The theory has also been applied to various perspectives on professional sports (e.g., Daly & Moore, 1981; Marbuger, 2002). However, investigations of the property rights situations for each legal structure, especially in conjunction with platform theory, are relatively new (Dietl & Weingärtner, in press) and have not yet been applied to amateur sports.

The different types of property rights (Milgrom & Roberts, 1992) can be differentiated into the following:

- a) Residual control consists of the right to make any decisions on the usage or change of a specific good.
- b) Residual claim is the right to retain the earnings from a specific good after all of the liabilities are paid.
- c) Transfer right consists of the right to sell or transfer the property rights to a third party.

Each of these rights is linked to a specific object, which, in our case, is the amateur equestrian sports institution. Thus, these rights can be shared among different people. The following paragraphs evaluate the two legal structures of private firms and members' associations with respect to their property rights situations (Table 1) and the accompanying consequences for their sponsors (Table 2). The analysis of the different legal structures with regard to sponsorship revenues is based on the assumption that sponsors aim for both high attention and secure investments with low hold-up risks (Dietl & Weingärtner, in press;

Franck, 2010a). This paper suggests that the distribution of property rights impacts the underlying model of value creation in sports and, thus, produces different weights for the revenue sources (e.g., sponsorships).

The private firms in the German amateur sports sector are mainly organized as private limited liability companies; only few are public limited companies. A key characteristic of private firms is the concentrated allocation of all property rights with the owner(s) (Franck, 2010a; Table 1). The owner exerts the influence in a direct way by assuming the role of CEO or in an indirect way by controlling a management team as the chairman of the supervisory board. As a residual claimant, the owner is allowed to collect any profits generated within the sports institution. The transfer right enables the proprietor to sell his or her ownership stake to other persons or organizations. The utility of the institution is mainly derived from maximizing its profits (Franck, 2010b; Dietl et al., 2011). The choice of this type of legal structure renders the platform *less open*.

Insert Table 1 here

The property rights constellation in private firms bears certain risks for potential sponsors (Table 2). First, there is a huge danger of hold-up for the athletes, leading to a reduced audience for the sponsor. Amateur athletes have no direct influence on the strategy of an institution. After making an initial investment in a platform, they may be locked into a hold-up situation because of a potential royalty increase or reduction in training capacities. In addition, these athletes cannot be sure that all of the fees they have paid are reinvested into the facilities of the club, as the profits can be partially distributed among different entities or entirely allocated to the investor. Rapid strategy changes may occur for various reasons (e.g., a new ownership structure). These factors will lead to a decreasing number of participants, as rational athletes will anticipate this risk and either leave the platform or not join at all. Second, sponsors must also deal with potential hold-up problems. A sponsor is exposed to hazards similar to those faced by athletes. Being a residual claimant, the owner of the

institution can allocate to himself at least part of the money gained through the sponsorship. If the owner uses the transfer right and sells the club, then any rapid strategy changes would negatively affect the sponsor because the contracts are usually made on a long-term basis with the club, not the owner (Dietl & Weingärtner, in press).

Insert Table 2 here

In the context of this paper, a members' association is defined as an association/legal form with its own legal personality. Most continental European countries use this definition. Members' associations allow for collective engagements in financial transactions and other business tasks (Franck, 2010a). Many amateur sports institutions use this legal structure to organize their activities and to construct their legal frameworks. The key characteristic of a members' association is its non-profit status. Members' associations and other non-profit sports organizations share the same characteristics: a democratic structure, members united by common interests, emphasis on volunteers, and autonomy (Horch, 1992, 1994). This legal structure makes a platform-mediated network *more open*. Because of the democratic structure, the residual right of control is given to the members – predominantly active sportspeople – who elect representatives for the institution's day-to-day business and who vote on important issues during a regularly scheduled meeting (Franck, 2010a). The institution's non-profit status and additional legal limitations eliminate the possibilities of residual claims or transfer rights (Dietl, et al., 2009b; Table 1). Because non-profit institutions cannot distribute any profits or benefit from rising stock prices, the members' association structure is unappealing to investors. Thus, utility can only be derived from maximizing the welfare of the institution's members (Franck, 2010a).

For sponsors, a club organized as a members' association is attractive because of the increased attention associated with this structure (Table 2). The allocation of the residual right of control secures the influence of the members. As a result, the risk of falling into a hold-up situation is low for them. This low risk leads to stronger demand for the athletes, as more

people are willing to invest in the platform. Because a residual claim does not exist, all of the funds must be reinvested into the properties of the institution, such as the facilities, coaches, and programs of the club. In turn, the superior equipment and facilities make the club more attractive to other active sportspeople. In addition, the members do not have to fear that any part of their membership fees is distributed to any investor. A club governed as a members' association is also a safe investment for potential sponsors. As with the members, the sponsor can be certain that all of his or her funds are invested into the infrastructure of the club and that nothing is distributed to any investor. The nonexistence of any transfer rights renders rapid strategy shifts after ownership changes impossible. Thus, a sponsor may predict the mid-term development of the club (Dietl & Weingärtner, in press).

This comparison shows that members' associations have a clear advantage with respect to the sponsor's options and the institutions' potential to gain sponsorship revenues. The comparison shows that the goals of the welfare-maximizing members' association are more in accordance with the sponsor's target than that of private companies. Therefore, this study assumes that sports institutions governed as members' associations receive higher sponsorship revenues than private firms. This hypothesis will be empirically tested by using the data taken from amateur equestrian sports in Germany.

## **Method**

### **Research context**

This paper conducts an empirical comparison between private firms and members' associations with regard to their sponsorship revenues in amateur equestrian sports in Germany. Equestrian sports are peculiar in that both the private firms and the members' associations are members of the national governing body for equestrian sports. In other sports, only the members' associations are members of the national governing body. Therefore, these equestrian sports institutions are highly relevant to the research question posed by this paper.

Overall, a total of approximately 3,800 private firms and 7,700 members' associations exist in amateur equestrian sports in Germany. The private firms are profit-oriented companies that are owned by individual persons. These firms can be differentiated into agricultural and industrial companies. Approximately 59% of the private firms are agricultural companies, whereas approximately 41% are industrial companies. The firms are relatively small. More than 51% of the private firms have at most 50 customers, and approximately 18% have between 51 and 100 customers. Approximately 30% of the firms have more than 100 customers. Their customers have to pay additional fees to receive specific training lessons and to use the facilities. The private firms mainly experience problems related to the accessibility of the facilities with respect to public transport and the number of laws, orders, and directives as well as the recruitment and retention of young competitive athletes (Breuer & Wicker, 2011).

The members' associations are non-profit organizations that have more members than the private firms. Approximately 26% of the associations have at most 50 members, approximately 26% between 51 and 100 members, and approximately 40% between 100 and 300 members. The members of the associations pay a monthly or annual membership fee. After doing so, they obtain a general right to use the programs and facilities of the club. Moreover, the members' associations also provide sports programs to non-members. Most of the members' associations are uni-sport clubs and only offer equestrian sports. Approximately 3% of the clubs are omni-sport clubs and offer other sports programs, such as swimming or field hockey. The most significant problems for members' associations involve the recruitment and retention of volunteers and of young competitive athletes, as well as the costs of hosting sporting competitions (Breuer & Wicker, 2011).

Both types of sports institutions share certain characteristics. They both offer equestrian sports programs, such as dressage, vaulting, and jumping, to their customers. In both types of institutions, the customers have access to trained horses with which they can

have training lessons for additional fees. Approximately one-fifth of the members and customers, respectively, are competitive athletes who take part in competitions at all levels. Although both private firms and members' associations organize tournaments, the members' associations are more likely to do so. Besides from tournaments, both types of institutions also organize social events, such as summer festivals or club balls, in which their customers can take part. Prior scholars who have compared the financial situations of both types of institutions have shown that private firms experience larger problems related to the financial situation of the organization (Breuer & Wicker, 2011).

### **Data collection**

The data for this study were collected from the Sport Development Report for Equestrian Sports 2009 (Breuer & Wicker, 2011). The Sport Development Report is a third-party research project designed to analyze the development of non-profit sport clubs (i.e., members' associations) in Germany. In 2009, this project was extended to include the equestrian sports industry (i.e., members' associations and private firms) and was funded by the *Fédération Nationale*, which is the national governing body for equestrian sports in Germany. This research project was originally designed to provide information about the equestrian sports institutions in Germany, as no empirical information was available at the time.

The data were collected with a nationwide online survey of amateur equestrian sports institutions in Germany. The survey lasted from January 12, 2009, to March 8, 2009. The 17 regional governing bodies of German equestrian sports made the e-mail addresses of the sports institutions available for this survey. Altogether, the addresses of  $n = 1,971$  private firms and  $n = 3,497$  members' associations were sent to the project management. All of the sports institutions that had e-mail addresses listed at the regional governing bodies were invited to take part in the survey. However, the total number of included institutions was reduced by dropouts. There were  $n = 374$  dropouts for private firms and  $n = 681$  for members'

associations. Most of these dropouts were related to incorrect email-addresses caused by typing mistakes or by the fact that the corresponding person no longer belonged to the institution. In total,  $n = 574$  private firms and  $n = 1,165$  members' associations participated in the survey. The response rate was 35.9% for private firms and 41.4% for members' associations. These response rates are relatively high compared to those of previous online surveys of sporting organizations (e.g., Breuer & Haase, 2007; Breuer & Wicker, 2009).

The invitation e-mails informed the respondents that the survey was anonymous and that the data were treated confidentially and only used in relation to the Sport Development Report. The e-mails contained a personalized link to the online questionnaire. As a result, each institution had its *own* online questionnaire, which meant that the respondents could log in and out. Thus, the questionnaire did not have to be filled out in one sitting, and several persons were able to fill in the data. For example, the president of a members' association could respond to general questions about the club situation (e.g., the number of members and the club's problems), and the treasurer could fill in the financial data. Previous Sport Development Reports have revealed that most questionnaires were completed by a voluntary board member in the members' associations. This information was not available for private firms, as the Sport Development Report is usually restricted to members' associations. This particular project presents an exception to the rule.

The online questionnaire consisted of approximately 50 questions related to the following areas: Number of customers/members, sport programs, sport facilities, general problems, training horses, volunteers, democratic participation possibilities for youths (only assessed for members' associations), paid staff, coaches and teachers, relationships with other institutions, competitions and tournaments, finances, and need for support. The number of questions differed among the respondents in accordance with the number of filters. If the respondents answered yes for an initial question, then they were asked additional questions on the subject. If they answered no to the question, then they proceeded to the next topic.

In this study, the questions related to the finances of the private firms and the members' associations are most important. In particular, the sponsorship revenues of the sports institutions hold particular interest for this research. The online questionnaire asked the respondents to describe the overall income and expenditure of the institution. Moreover, they were asked to state whether the institution had revenues or expenses in several categories. For example, the revenue categories included revenues from membership fees/royalties, public subsidies, service fees, and sponsorships. Sponsorship revenues imply revenues from periphery advertisements, print advertisements, and jerseys and equipment. The questionnaire asked both the private firms and the members' associations to describe their sponsorship revenues such that a comparison could be made between these two types of institutions. For the analysis, the overall sponsorship revenues were calculated by adding the total values of the data from each sponsorship revenue category. The financial data in the study refer to 2008, which is the year before the survey was administered.

### **Data analysis**

The data analysis consisted of two main steps. First, the descriptive statistics of the private firms and the members' associations were presented. Here, information was provided about the general and financial characteristics of the institutions. With regard to the general characteristics, the number of members/customers and horses, the percentage of institutions that organized tournaments, and the percentage of institutions having training horses, coaches, and paid staff were presented in this paper. This study selected these characteristics to portray the structure of the institutions. The rest of the questionnaire contained additional characteristics that could have been presented for further analysis. However, as these characteristics were not the focus of the study and the theoretical framework, their presence was kept to a minimum. The financial characteristics to be studied were overall expenditures, the income of the institution, and the sponsorship revenues. This study determined the importance of the sponsorship revenues by calculating the percentage of institutions that had



sponsorship revenues, the proportion of the sponsorship revenues to the overall income and the average revenue acquired from the sponsorships.

Next, this study conducted a one-way analysis of variance (ANOVA) with the sponsorship revenues as the dependent variable and the legal structure of the institution ( $0$  = members' association,  $1$  = private firm) as the independent variable. This ANOVA was used to test the aforementioned hypothesis that members' associations had higher sponsorship revenues than the private firms. However, in addition to the legal structure, there might be additional variables that could have an impact on the amount of sponsorship revenue. Therefore, in addition to the ANOVA, this study performed a linear regression analysis with the sponsorship revenues as the dependent variable to control for these effects. This paper used the general characteristics of the descriptive statistics (Table 3) as well as the overall income and overall expenditures of the institution as the control variables in the regression analysis. If the legal structure had a significant effect on the sponsorship revenues in the regression analysis, then the ANOVA results would be supported. The hypothesis was only accepted if the effect of the legal structure was significant in both the ANOVA and the regression analysis.

## Results

The descriptive statistics of the private firms and the members' associations were summarized in Table 3. A comparison of the general characteristics showed that the members' associations in German amateur equestrian sports had more members on average than the private firms. The private firms had approximately 115 customers on average, whereas the members' associations had approximately 146 members on average. Although the private firms had fewer customers, the average number of horses was higher for the private firms than for the members' associations (36.5 vs. 10.7). Moreover, the private firms had more coaches on average than the members' associations: The private firms had 2.1 coaches on average, whereas the members' associations had an average of 1.6 coaches. The

private firms were characterized by a more professional structure in that they were more likely to employ paid staff: Approximately two-thirds (65.1%) of the private firms employed paid staff, whereas approximately 30% of the members' associations had paid staff. In contrast, the members' associations were more likely to organize tournaments: Almost two-thirds (65.1%) of the members' associations organized a tournament in 2008. This percentage was smaller for the private firms (25.6%).

Insert Table 3 here

A comparison of the financial characteristics revealed additional differences between these two types of institutions (Table 3). Although smaller, the private firms had higher average expenditures and generated higher incomes on average. The comparison showed that sponsorship revenues were less important to private firms than to members' associations. Only 6.7% of the private firms received sponsorship revenues, whereas more than 22% of the members' associations generated this type of revenue. A closer look showed that 5.6% of the private firms and 13.1% of the members' associations generated sponsorship revenues from periphery advertisements. In addition, 3.9% of the private firms and 13.4% of the members' associations generated sponsorship revenues from print advertisements, and 2.2% of the private firms and 2.6% of the members' associations generated sponsorship revenues from jerseys and equipment. The significance of the sponsorship revenues could also be seen in the proportion of the sponsorship revenues to the overall income. In private firms, only 0.1% of all revenues consisted of sponsorship revenues. This proportion was higher in members' associations. In this study, 1.3% of the total revenues came from sponsorships. The level of sponsorship revenues also differed between the institutions organized as private firms and those structured as members' associations. The average sponsorship revenues amounted to approximately €192 for private firms and approximately €775 for members' associations. A look at the sponsorship categories revealed that in private firms, most of the sponsorship revenues came from periphery advertisements. These revenues amounted to approximately

€140 on average, whereas the revenues from print advertisements were more than €21 and those from jerseys and equipment were €30 on average. The members' associations received approximately €316 from periphery advertisements, almost €427 from printed advertisements, and over €33 from jerseys and equipment.

The results of the ANOVA showed that a significant difference existed between the private firms and the members' associations with regard to the overall sponsorship revenues,  $F = 9.656, p < .01$  (Table 3). In addition to the ANOVA, this study ran a regression analysis to control for the effects of additional variables on the sponsorship revenues (Table 3). In the regression, the general characteristics, the overall income, and the overall expenditures of the institution were entered as control variables. The result of the linear regression analysis (Table 4) showed that the effect of the legal structure on sponsorship revenues was highly significant,  $t = -5.046, p < .001$ . Thus, this result confirmed the hypothesis that members' associations received higher sponsorship revenues than private firms. Moreover, the standardized coefficient indicated that the legal structure had the highest impact on the sponsorship revenues and that the additional variables were less important. This finding supported the importance of the legal structure to sponsorship revenues. In addition to the legal structure, the number of customers/members, the overall expenditures, and the overall income had a significant and positive impact on the level of sponsorship revenues. However, these factors were not the focus of the study, as they were only used as control variables.

Insert Table 4 here

### **Discussion**

This empirical study provided evidence that institutions structured as members' associations receive higher sponsorship revenues than those organized as private firms using the example of amateur equestrian sports in Germany. The findings indicate that the theoretical framework based on platform theory and property rights theory is not only effective for professional sports but also for amateur sports. The confirmed hypothesis

indicates that sponsors prefer to interact in members' associations with other market sides such as members/customers, local media, and fans. One explanation for this preference may be that the lower risk of hold-up problems and the greater amount of attention directed towards the sponsor make members' associations superior advertising targets than private firms (Table 2).

The level of sponsorship revenues and the percentage of institutions that generated sponsorship revenues indicate that these revenues are of less importance to amateur sports institutions. Nevertheless, the difference between the impacts of the legal structures on the sponsorship revenues was significant. The importance of sponsorship revenues is different in professional sports compared with amateur sports. As mentioned in the introduction, professional clubs such as Manchester United and Bayern Munich generate higher sponsorship revenues, which constitute an important revenue category (Deloitte, 2010).

The regression analysis revealed interesting findings, although they were not the main focus of the study. The initial purpose of the regression analysis was to support the findings of the ANOVA. The ANOVA supported the notion that the legal structure had a significant effect on the level of sponsorship revenues. The effect of the legal structure even showed the highest impact on the dependent variable. This finding also supports the importance of this factor. In addition to the legal structure, other variables also had a significant impact on the sponsorship revenues. These significant variables (i.e., number of customers/members, level of overall expenditures, and overall income) are related to the size of the institution. As all of the effects are positive, the findings indicate that large sports institutions are more likely to generate high sponsorship revenues than smaller institutions. In this regard, size refers both to the number of customers/members and to certain financial parameters, such as overall income and expenditures. With regard to the theoretical framework, it can be assumed that the size of the platform and the market actors also matter. This finding supports the assumption that sponsors prefer platforms in which large market actors interact with each other. For example,

the sponsors may prefer institutions with many customers/members and fans that receive a large amount of attention from the local media.

This study has some limitations that may be addressed by future research. First, the study is limited to one specific sport (i.e., equestrian sports). Future researchers may apply this analysis to other amateur sports, such as football or ice hockey. However, comparisons between members' associations and private firms are difficult in most other sports. Amateur equestrian sports in Germany represent a special case, as both types of legal structures are members of the same umbrella organization: The national governing body for equestrian sports. Because the study is restricted to one sport, only careful generalizations can be made. A second limitation of the study is related to the reasons for the sponsorships. Although explained in the theoretical literature, the reason that companies sponsor members' associations and private firms is still unclear. This information is not covered by the data in this study. Qualitative research may help clarify the reasons for sponsorships and support the theoretically derived hypothesis. As it stands, the legal structure variable represents a proxy for these aspects.

Despite the aforementioned limitations, the findings of this study have some implications for the managers of sports organizations. Managers and sports institutions face a difficult choice with regard to the legal structures of the institutions. Although private firms are thought to be more efficient and exhibit advantages in other revenue streams, members' associations outperform these private firms with regard to sponsorship revenues. Managers have to consider this aspect when making decisions about the organization's legal structure. Further research is needed to determine whether additional revenue categories that are influenced by the legal structure exist. Moreover, members' associations should be aware of the advantages that they have compared with private firms. When members' associations talk to potential sponsors, they should emphasize these benefits to the sponsor. Doing so is particularly important, as sponsorship revenues might become more important in the next few

years. Many members' associations receive public subsidies from the federal state, the district, or the community. Because many public authorities are experiencing financial problems in Germany, public subsidies are likely to decrease in the next several years. Indeed, a reduction in the public subsidies for sports institutions has already been observed in recent years (Federal Statistical Office, 2007). Therefore, members' associations should look at other revenue sources, such as sponsorships, to compensate for the loss in revenues from public subsidies.

### **Conclusion**

The choice of legal structure is an important decision for an institution. Many institutions face a choice between profit-oriented private firms and non-profit members' associations. This study focused on one aspect that has been neglected to date: the impact of a sports organization's legal structure on its sponsorship revenues. This paper conducted empirical analysis by studying the case of amateur equestrian sports institutions in Germany. Based on platform theory and property rights theory, this study derived the following hypothesis: Sports institutions structured as members' associations have higher sponsorship revenues than those organized as private firms. The results of the ANOVA confirm the hypothesis, as they reveal that the members' associations generated significantly higher sponsorship revenues than the private firms. Managers must consider this aspect when making decisions about the legal structure of their institutions.

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### Footnotes

<sup>1</sup> With the VWL Wolfsburg and Bayer Leverkusen, there are two exemptions to this rule due to historic reasons. The owners are the public companies Volkswagen and Bayer. However, neither is allowed to sell more than 49% of their shares to an external investor.

Table 1

*Allocation of property rights*

Property rights	Private firm	Members' association
Residual right of control	Owner	Active sportspeople
Residual claim	Owner	Non-existent
Transfer right	Owner	Non-existent

Table 2

*Situation for the sponsor*

Sponsor's aims	Private firm	Members' association
Attention for the sponsor	Low	High
	- Risk of hold-up for athletes and other interested people is high	- Hold-up risk for athletes is low - Better facilities due to reinvestment of all funds
Sponsor's protection against hold-up risk	Low	High
	- Distribution of money gathered (partly) through sponsorships is possible - Rapid strategy changes are feasible	- Non-distribution constraint ensures reinvestment of all funds - Rapid strategy changes are unlikely

Table 3

*Characteristics of the private firms and members' associations in amateur equestrian sports*

	Private firm	Members' association
General characteristics		
Number of customers/members (mean)	115.3	146.2
Number of horses (mean)	36.5	10.7
Number of coaches (mean)	2.1	1.6
Presence of paid staff (%)	65.1	29.7
Organization of tournament in 2008 (%)	25.6	65.1
Financial characteristics		
Overall expenditure (mean in €)	97,626	18,624
Overall income (mean in €)	123,948	39,066
Revenues from sponsoring (%)	6.7	22.1
Proportion sponsorship revenues/overall income (mean in %)	0.1	1.3
Revenues from sponsoring (mean in €)	192.12	775.44
ANOVA ( $F = 9.656, p = .002^{**}$ )		

*Note.*  $^{**}p < .01$ .

Table 4

*Summary of the regression results*

	<i>beta</i>	<i>t</i>	<i>p</i>
Constant		3.032	.003**
Legal structure (1 = private firm)	-.267	-5.046	<.001***
Number of customers/members	.122	2.873	.004**
Number of horses	-.058	-1.144	.253
Number of coaches	-.028	-.558	.577
Presence of paid staff (1 = yes)	.056	.949	.343
Organization of tournaments in 2008 (1 = yes)	.060	1.243	.214
Overall expenditure (in €)	.204	3.106	.002**
Overall income (in €)	.157	3.048	.002**

*Note.* \*\*\* $p < .001$ , \*\* $p < .01$ , \* $p < .05$ .

Figure 1

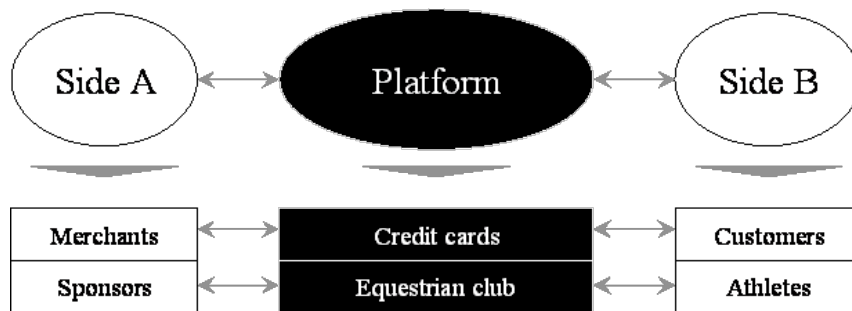
*Platforms for value creation*

Figure 2

*Market participants and network effects with equestrian sport clubs*

