

The Use of Sport Satellite Accounts for Policy Purposes

Policy paper prepared for the meeting of Sports Director Generals, Barcelona/Spain, 26 Feb. 2010

© 2010 Meerwaarde Sports and Economics (NL)

© 2010 SpEA SportsEconAustria Institute of Sports Economics (AT)

Introduction

On the 11th of July 2007 the European Commission (Commission 2007) published the White Paper on Sport, announcing the following initiative:

"The Commission, in close cooperation with the Member States, will seek to develop a European statistical method for measuring the economic impact of sport as a basis for national statistical accounts for sport, which could lead in time to a European satellite account for sport"

This announcement was preceded by an initiative of the Austrian presidency to formulate a framework for the compilation of national sport satellite accounts (SSA) and to install an EU Working Group 'Sports and Economics'. The Working Group has held seven meetings until October 2009 on both methodology and measurement issues. As a result of this concerted effort, pioneering results are now available for three member countries (AT, CY, UK) on the basis of a harmonized and internationally comparable approach.¹ More countries are supposed to follow suit in due course of time. In doing so, the October 2007 consensus on the statistical definition of sports, henceforth referred to as 'the Vilnius definition of sports', serves as the single most important point of reference in terms of sports-related data classification and collection.

The implementation of sport satellite accounts (SSA) is a costly and time-consuming project. Such usage of resources should be outweighed by returns generated through additional insight in educational and academic settings as well as the application thereof in the context of evidence-based sports policy formulation.

Important as the educational and scientific uses may be, the focus of this paper is on the application of SSAs by (supra)national, regional, and local authorities as well as other policy-oriented stakeholders in sport, such as sports associations, sports umbrella organizations, social cohesion-

¹ For quantitative results cf. SportsEconAustria, Sheffield Hallam University, Statistical Service of the Republic of Cyprus and European Commission (2010).

oriented non-profit organizations, development agencies, and many others. The aim of this paper is to help structure the considerations for implementing such accounts, and thus to illuminate the potential policy uses of SSAs.

The first part of the paper discusses the notion of satellite accounts and their advantages from a statistical point of view. The second part of the paper probes into the policy use of Satellite accounts, by addressing some prominent sport-related issues on the EU agenda in the context of which SSAs may be helpful to guide sports policy formulation. A summary concludes the paper.

What is a Satellite Account?

A satellite account system constitutes a mutually coherent extension of the system of national accounts. The system of national accounts (SNA), in turn, can be considered as the top of an information pyramid (De Haan and Van Rooijen-Horsten 2003) which consolidates microeconomic data of different industries into macroeconomic aggregates, such as gross domestic product, national income, and government fiscal balance. National accounts are essential for economic policy formulation and implementation, for they not only form the basis of the most important economic indicators but they are also a means to ensure international comparability, coherence, and coordination.

A satellite account system is specifically aimed at representing the economy along functional (that is, by topic) or divisional (that is, by sectors) criteria which are not otherwise addressed by the traditional system of national accounts because they do not correspond to a specific, statistically delineated economic activity.²

In the context of the present paper, a system of (here: sport) satellite accounts is defined as a robust statistical framework to measure the economic importance of a specific industry (here: the sports sector) in the national economy.³

The sports sector as a whole is anything but represented by a single NACE category – building on NACE category 92.6 “Sporting Activities” is a futile endeavor to gauge the economic relevance of sports. NACE category 92.6 is ring-fenced just to refer to a minute (though essential) fraction of the overall sports sector. This category encompasses sports venues such as swimming pools as well as professional sport organizations. The EU Working Group ‘Sports and Economics’ has termed sport-related activities falling into this category the ‘statistical definition of sports’.

A more comprehensive definition of sports includes all items that are necessary to perform sports. This classification includes sport goods such as sport shoes and tennis rackets and is referred to as the narrow definition of sports. In contrast, not only does the so-called broad definition of sports include the statistical definition and the narrow definition but is also comprised of relevant parts of industries for which sport is an (important) input for their production, e.g. television broadcasting.

² Technically, they do not correspond to a NACE code, NACE meaning Nomenclature statistique des Activités économiques dans la Communauté Européenne.

³ For methodological issues see Grohall, Helmenstein and Kleissner (2010).

By using the methodology of satellite accounts, the advantages of the core system of national accounts are retained, while the overburdening of this system with too much detail and the problem of double counting are prevented.

The virtues of a system of SSAs can be summarized as follows:

1. SSAs are part of the information pyramid as constituted by the system of national accounts; therefore inter-sectoral comparability as well as coherence across indicators is ensured;
2. SSAs serve as an (inter)national reference and coordination tool in the context of economic data gathering;
3. SSAs provide key economic indicators for the development of the sports-sector such as the gross national sports product, sports-related income formation in sports, and sports productivity;
4. SSAs facilitate sports-related model building and thus permit forecasting;
5. SSAs add to evidence-based sports policy formulation.

The coordination function of an effort to generate harmonized national SSAs on the European level (which may ultimately lead to a single European SSA) is an important part of the potential benefit. By standardization of data gathering, international comparisons can be carried out at substantially reduced costs. Furthermore, SSAs may serve as a backbone and a programming device for economic research in the sports sector in different countries, for they further contacts and exchange of methodologies between researchers. Although many countries have done research into certain aspects of the economy of sports, all have featured uncharted territories so far (cf., e.g., Ahlert 2005, Felderer et al. 2006). A concerted European research effort helps fill in many of the blank spots by drawing upon experience and data from other countries. In moving forward, this coordinated research & development effort can be expected to yield considerable benefits as delineated in the Europe 2020 strategy (Commission, p. 38), and will henceforth contribute the transition to a knowledge-based economy. Besides these longer-term benefits, SSAs hold substantial potentials for purposes of policy formulation, policy implementation, and policy evaluation. We will now turn to these policy uses of SSAs.

Policy Uses of Sport Satellite Accounts

Sport satellite accounts contribute to benchmark national economic policies directed towards sports, and they help answer economic questions related to sports policy.

Properly amended SSAs form a solid basis for policy relevant explorations also on the sub-national level, viz. to determine the contribution of sports to regional value added and employment (cf. RuG/CBS 1999). Regional SSAs also form the basis for (secondary) income accounts which keep record of the financial flows within the sports sector.

Furthermore, SSAs have a disciplinary effect – the economic impact of a specific subsector, such as that of professional sports, can never exceed the overall share of sport in the economy. This helps policy makers to perform a ‘reality check’ on claims voiced by specific sports interest groups.

The before-mentioned arguments represent still quite abstract notions: to shed some light on the concrete politico-economic return of SSAs, we are going to discuss various practical, highly relevant

policy questions subsequently. These may serve as examples to give a flavor of the type of topics which can be addressed through a system of SSAs. They are meant to be of indicative rather than exhaustive nature.

Policy question 1: How to monitor the economic importance of sports?

The Gross National Product and unemployment are the main indicators for the economic performance of a country or, for that matter, a region as well. The framework of SSAs provides all interested groups with a set of major indicators for their core business(es): the size of the sports sector, individual shares of specific sports industries, and the associated possibilities for benchmarking, in both an inter-temporal and a cross-sectional manner. Moreover, SSAs permit inquiry into structural issues such as the labour-/capital intensity of sport-related output generation as compared to that of other sectors of the economy.

Policy question 2: Which sport disciplines are hosting high-growth/low-risk potentials for national and regional economies?

There is a growing amount of evidence that sport is a comparatively fast growing economic activity. However, the growth pattern may differ significantly across countries and from (sports) industry to industry depending on comparative advantage.

If so, for purposes of sustainable policy design it is necessary first to identify the set of country-specific growth engines absent fashions and fads, and thereupon to link information on the (entire) value added chain to the analysis. In other words: national specialization in different types of sports-related industries is a common phenomenon but its full potential is far from being utilized by deliberate economic policy formulation.

A well-known example is the specialization of Austrian ski manufacturers. A combination of local demand, entrepreneurship including competitive ambition, and critical size has led to a highly specialized and innovative sports industry (Porter 1991). Another example is the increasing importance of Dutch manufacturers of artificial grass surfaces for sports which appears to be further spurred by the internationalization of specific sports disciplines as well as climate change phenomena.

A sport satellite account is a necessary (though not in all cases sufficient) instrument to identify such patterns, and to provide answers to questions such as: Which industries are particularly sports-affine (e.g. in the sense of the Rasmussen (1956) key sectors)? Which industries host the sports-related growth and employment drivers? How does their expansion feed through along the entire value added chain (the growth propagation mechanism)? At each stage of the value added chain, how sizable is the intra- and extra-EU outflow of demand? What are the sources of growth – increasing domestic and/or foreign demand, and how stable are these historically and prospectively? On the regional level, to which degree does the clustering of sports industries contribute to speed up the diffusion of innovation? SSAs themselves do not provide information at the regional level but they are necessary to build ‘regionalized satellite accounts’.

In terms of policy formulation: What is the national specialization pattern of the sports(-related) industry compared to other countries, and in which way should it be amended to maximize domestic value added at an acceptable level of risk? And more specifically: Where are the opportunities for national specialization by niche-development?

Last but not least, there is also a regional and social cohesion issue to be addressed here. Some sports disciplines are experiencing rapid growth in terms of participation which may differ widely in terms of cohort-/age-specific participation or along a rural/urban divide. Their performance may not always be reflected properly in the attention these disciplines deserve, for example in the context of planning procedures or funding decisions.

Policy question 3: What is the economic impact of sport-related policy measures?

Different member states are characterized by different fiscal and public policy 'regimes' towards their sports sectors. To illustrate, these regimes may express themselves, inter alia, through the ownership of sport stadia for professional sports (the club versus the community), the use of sports stadia for other purposes than sports, the fiscal treatment of gifts to sports organizations, or the regulation of the betting sector. Such differences may prompt a regime-specific impact on the economic importance of sport as well as on the economic and financial relationship between the sports sector, other industries, and the state which can be documented and analyzed by means of SSAs. In a similar but even more complex vein, evidence-based policy design requires the availability of reliable data to identify and thus not to neglect sport-specific path-dependencies to rule out the case that objectives are set beyond the absolute limit of the (dynamic) production possibility frontier.

Since satellite accounts offer a framework for comparing economic relationships between countries, they are conducive to identify the economic consequences of a 'regime change'. An example of such a 'regime change' might be a change in the ownership of football stadia. What are the consequences if a country in which the sport stadia are predominantly public property, opted to privatize these? What economic lessons can be learnt from countries in which the stadia are privately owned?

Policy question 4: What is the size and development of the labour market in sports-related industries?

While the importance of sports in society is on the rise, an increasing number of students are choosing sport management as their main subject. However, in many member states there is no clear indication of the demand for sport managers in sports-related industries, and therefore no employment prospects can be stated at this moment.

SSAs can help provide insight into the total sports-related labour market, and thus provide educational institutions and policy makers with robust data for realistic forecasts.

Policy question 5: What is the economic and social return on investment in sports facilities and events?

As many countries are in the process of bidding for major sports events (or of preparing for a bid, at least), an important policy issue is the expected return on investments that are necessary to host the event. In more detail, SSAs are instrumental to determine the short- and long-term return of an investment in candidacy, the feasibility of funding, and, if successful, of an investment in people and infrastructure.

At this moment there is no standardized framework available to investigate the multi-dimensional decision problem of which event to host where at what level of investment-related expenditure. Is a low-investment strategy superior or inferior to a high-investment strategy in terms of value added, employment, and other policy-relevant dimensions which may also be accounted for by linking

satellite accounts for other industries (such as those for tourism-, culture- (Grohall et al. 2010), and environment-related effects) to the analysis?

In addition, SSAs may serve as a starting point to gauge the 'intangible' impact of sports on the economy as well as on society. Such impact analyses require a sufficient degree of information on the transmission channels between the value added/employment effects of sport and the corresponding variables of intangible costs and benefits. Provided that such elasticities are available, inter alia it is possible to estimate the expected effect of large-scale sport events on a nation's brand value or the contribution of sport to the integration of people with immigrant descent.

Policy question 6: How is sport being financed?

Sport satellite accounts provide a good framework to investigate and benchmark financial flows towards and from the sports sector. Comparing the size of the flows between countries and over time provides policy makers with relevant information.

What do the differences tell about sports policies? What is the effect of regulation on the betting and gambling industry and its sport-related funding capability? How large are the regulation-induced differences across EU member states? Can a cross-country comparison of financial flows offer a starting point to identify additional funding sources? What part of the sports sector is financed by sponsoring? Are certain flows jeopardized by national or international developments, what are the consequences for the sports industries under status quo conditions, and which alternatives suggest themselves?

Summary

A satellite account system is a robust statistical framework for measuring the economic importance of a specific industry, e.g. the sports sector, in the national economy.

Three generally agreed definitions (termed the "Vilnius Definition of Sport"), applied to the system of national accounts, constitute the basis for the Europe-wide harmonized compilation of sport satellite accounts (SSAs):

- The '**statistical definition of sport**' refers to NACE category 92.6. This category is comprised of sport facilities such as swimming pools as well as professional sport organisations;
- The '**narrow (economic) definition of sport**' includes all industries which produce goods that are necessary to perform sport, for example, the manufacturers of sport shoes and tennis rackets;
- The '**broad (economic) definition of sport**' additionally encompasses all industries for which sport is an (important) input for production, for example, sport-related TV broadcasting networks.

Sport satellite accounts are helpful if not indispensable for a large variety of intents and purposes:

- SSAs stimulate methodological rigor and structural coherence across countries and over time;
- SSAs serve as a backbone and programming device for economic research in the sport sector; they facilitate both intra- and inter-sectoral benchmarking efforts;

- SSAs help policy makers on the (supra)national, regional, and local level in formulating sport policies;
- SSAs provide a framework for sport development analyses and investment decisions and document the economic consequences of public decisions which affect the sport sector;
- SSAs constitute a reference point for labour market analyses as well as career choice and human capital accumulation decisions;
- SSAs highlight sport-related specialisation patterns and associated (niche) markets with above-average growth potential;
- SSAs serve as a 'reality check' on claims voiced by sport interest groups;
- SSAs foster evidence-based argumentation in the arena of sport politics;
- The effort to create SSAs in a Europe-wide harmonised manner furthers the cross-border networking between researchers and the diffusion of methodological innovation and thus helps attain the goals of the (post-)Lisbon strategy.

References

Ahlert, G. (2005): Sportsatellitensysteme, Vergleich der konzeptionellen Grundlagen in Deutschland und Frankreich, Studie der Gesellschaft für wirtschaftliche Strukturforchung im Auftrag des Bundesinstituts für Sportwissenschaft, Osnabrück.

Commission of the European Communities (2007): White Paper on Sport, COM(2007)391 final, Brussels.

Commission of the European Communities (2010): Europe 2020, Background Information for the Informal European Council, 11 February 2010, Brussels.

De Haan, M. and M. Van Rooijen-Horsten (2003): Knowledge Indicators based on satellite accounts, CBS, Rijswijk.

Felderer, B., C. Helmenstein, A. Kleissner, B. Moser, J. Schindler and R. Treitler (2006): Sport und Ökonomie in Europa, ein Tour d'Horizon, SpEA SportsEconAustria, Vienna.

Grohall, G., C. Helmenstein, A. Kleissner, I. Fischer and E. Huber (2010): Wirtschaftsfaktor Kultur im Burgenland, Study commissioned by Burgenland Tourismus, SpEA SportsEconAustria and ESCE Economic & Social Research Center, Eisenstadt and Vienna.

Grohall, G., C. Helmenstein and A. Kleissner (2010): Sport Satellite Accounts, Non-Technical Methodology Paper, Vienna.

Porter, M. (1991): The comparative advantage of nations, MacMillan Press, London.

Rasmussen, P. (1956): Studies in Intersectoral Relation, North Holland, Amsterdam.

RuG/CBS (1999): Regionale samenhang in Nederland, Reg publikatie 20, Stichting Ruimtelijke Economie Groningen, Groningen.

SportsEconAustria (2007): Definition of Sports, according to NACE, SportsEconAustria, Vienna.

SportsEconAustria, Sheffield Hallam University, Statistical Service of the Republic of Cyprus and European Commission (2010): Sport Satellite Accounts Data Leaflet, Brussels.