

Sponsorship Decisions – Are Managers Honest with Shareholders?

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Sport Sponsorships have become an essential part of companies' marketing strategies (Cornwell & Known, 2019, p. 1). Hence, sponsorship decisions have significant consequences for the company.

Who makes sponsorship decisions in sponsoring companies?

Shareholders or owners of a sponsoring company give managers the authority to make decisions on their behalf. This illustrates a **principal-agent-relationship**, with the shareholders or owners as principal and the managers as agents (Jensen & Meckling, 1976, p. 308). There are **doubts** that the managers' **decisions** are always in line with the strategic marketing **objectives** of the company (Cornwell & Known, 2019, p. 5; Johnston, 2010, p. 366; Zimmer, 2017). From the industrial marketing literature, we know that strategic decisions can be motivated by a complex **combination of corporate and personal objectives** (Webster & Wind, 1972, p. 18). This is shown in figure 1.



Figure 1: Objectives in sponsorship decisions.

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If the personal interests of managers (agents) differ from the principal's objectives, **agency effects** occur (Eisenhardt, 1989, p. 58). In the sponsorship context, we speak of a **hidden agenda** when personal objectives influence the managers' sponsorship decision-making.

Schönberner, Woratschek, and Ellert (2020) applied the **Delphi technique** to assess the expert opinions of 18 sport sponsorship managers in three rounds of interviews. The Delphi method enables researchers to "distinguish and to clarify real motivations" (Linstone & Turoff, 1975, p. 4). **Key characteristics** of the Delphi method are anonymity of the participants, iterative questioning in different rounds, structured feedback between the rounds, and the (statistical) compression of group answers (Rowe & Wright, 1999, p. 354).

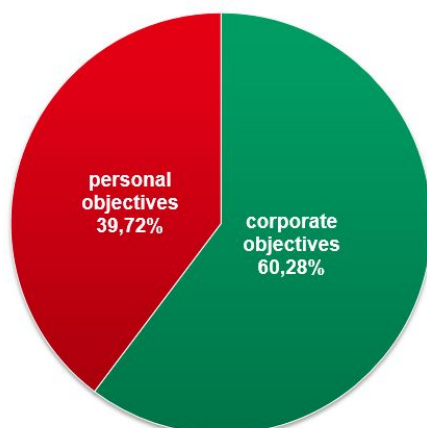
This study reveals 12 different types of **managers' personal objectives**. The most important personal objective is the **identification with a team or a particular sport**, followed by **regional loyalty**, and **personal benefits/fun** such as free tickets and meeting the rich and famous. Furthermore, **prestige in managers' peer-groups**, **exertion of power**, and **social relationships** also represent relevant personal objectives of managers. Some minor-level motivations are **personal success**, **status** within the organisation, **influence** on the sponsee, **personal rejection**, **competitive thinking**, and **job security**.

Do personal objectives influence sponsorship decisions?

Yes, they do!

small and medium-sized enterprises:

< 50 Mio. EUR annual turnover
< 250 employees



large-scale enterprises:

> 50 Mio. EUR annual turnover
> 250 employees

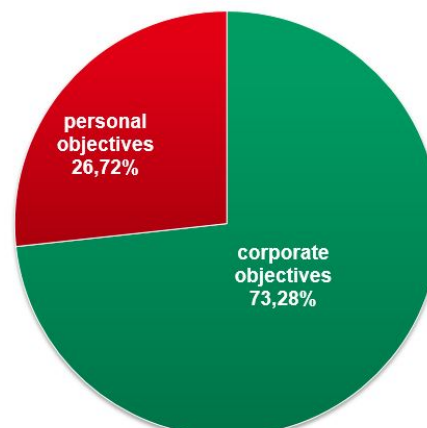


Figure 2: The influence of personal objectives on sponsorship decisions in companies of different sizes.

More specifically, the results show that the size and the organisational structure of the sponsoring company determine the **influence of personal objectives**. As displayed in Fig. 2, the influence of personal objectives on sponsorship decisions is **larger in small and middle-sized enterprises** (39.72%) than in large-scale enterprises (26.72%). Consequently, the personal objectives of managers influence the decision-making in sponsoring companies of all sizes, which implies that a **hidden agenda in sponsorship decisions exists**.

What does the existence of a hidden agenda mean for sponsoring companies?

A hidden agenda in sponsoring decisions leads to **agency conflicts** that have negative effects on the sponsor. The findings of Schönberner et al. (2020) demonstrate four types of negative consequences for the sponsor: **financial loss**, **reputational damage**, **internal problems** with employees, and the signalling of a **misleading strategic orientation**.

Interestingly, the study also reveals three types of **positive effects** of a hidden agenda on sponsorship success from a sponsor's perspective: **greater expertise**, **stronger support**, and **better activation of the sponsorship**. One explanation for these positive effects is that when a manager has a personal interest in a sponsorship, the intrinsic motivation to put more effort into implementing the sponsorship is stronger. However, agency conflicts dominate the positive effects.

How can managers address the hidden agenda issue practically?

From the **sponsee perspective**, sport organisations and sport marketing agencies can **address** potential sponsors not only on a rational level, for instance, with facts about the sport organisation, but also **on an emotional level**. In the negotiation process, the sport organisation could try to **pre-identify the personal objectives** of the sponsor's manager and, thus, **utilise** them by including personal benefits, such as free tickets or the opportunity to meet the star players in the sponsorship proposal.

From the **sponsor's perspective**, thorough and consistent **sponsorship effect measurements** and incentive systems, as well as controlling systems, should be implemented to reduce agency conflicts. The agency literature includes several such systems (e.g., Eisenhardt, 1989; Jensen & Meckling, 1976), which should be discussed and applied in the context of sponsorship decisions.

To put it in a nutshell:

1. Sponsorship decisions are motivated by both corporate and personal objectives. A **hidden agenda** in sponsorship decision exists.

2. A hidden agenda occurs when personal objectives, such as **identification with a team/sport, regional loyalty, or personal benefits/fun**, influence sponsorship decision-making.
3. The level of influence of managers' personal objectives on sponsorship decisions depends on the **size and the structure** of the sponsoring company.
4. A hidden agenda leads mainly to negative effects for the sponsoring company, namely **financial loss, reputational damage, internal problems** with employees, and the signalling of a **misleading strategic orientation**. However, positive effects can also occur.
5. Sponsors, sport organisations, and sport marketing agencies should **leverage the knowledge** about hidden agenda in sponsorship decisions to their own benefit.

Video

Please watch the SMAB Clip "Hidden Agenda in Sponsorship Decisions" on Prof. Woratschek's youtube channel:

<https://youtu.be/YAkPYsttQ-c>



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