observations

Bulls, bears, and ballclubs

THE BOSTON CELTICS pro basketball team has returned around 20 percent to its investors each year since becoming the first publicly traded professional sports franchise in 1986—until this September, when it was sold to a private owner. Why don't more teams go public, and why don't public teams tend to last?

Other teams have also sold public stock, with varying degrees of success. Football's Green Bay Packers have sold shares four times since the 1920s, and sales have exceeded expectations each time, even though shareholders receive no dividends and can only sell the stock back to the team for 2.5 cents per share. Baseball's Cleveland Indians offered stock in June 1998. Though the stock immediately tanked, initial investors realized a return of 48 percent when the team was sold in November 1999. Hockey's Florida Panthers were publicly owned until June 2001, and did well only after acquiring hotels and resorts. *Business Week* called the team "a drag on earnings," and shares in Boca Resorts Inc., the team's former owner, rose after the team was sold.

Team owners have pitched their IPOs as a way of getting the community involved, ensuring that franchises do not move to other cities against the wishes of their fans. The funds raised in public stock offerings can help pay for high-salaried star players or improvements to aging stadiums, or even for franchises themselves (especially in the minor leagues, where frequently no single buyer can afford to purchase the entire team).

Sale prices for franchises have always increased, providing investors with a good return if the franchise is sold. But sales are rare, and otherwise team stock performs poorly; sports franchises offer little potential for growth, and gate receipts and local television revenue are too reliant upon success on the field. Also, shareholders are usually limited in their decision-making involvement since few teams are majority publicly owned. (Only 48 percent of Celtics stock was publicly held, for example.) Short-term investors seem to buy stock in public franchises for the same reason the wealthy buy whole teams—owning a team is a status symbol.

Investors can make money on sports franchises if they are willing to hold on to the team until it is sold or adds other profitable assets. But fans looking to be more involved with their favorite team might do better to buy season tickets. For about the same cost, they'd at least get to attend the games.

—*Matt Rutledge*

Racing for gold

Marathon training typically entails four months of preparation, running an average of 25 miles per week and up to 40 miles in a given week. Sound tiring? Many people make an additional commitment to dedicate their run to a good cause, raising thousands of dollars for charity.

Nonprofit fundraisers linked with endurance athletic events have taken off running over the past decade. In 2002, 6.5 percent of Boston's marathoners represented a charity, raising $6.8 million—a $1 million increase from 2001. Yet long before runners compete in the race, the organizations must compete for a position. Each year, the Boston Marathon charity program, at the starting line since the mid-1990s, handpicks 15 nonprofit organizations from about 60 applicants. The nonprofits that secure race numbers usually require marathoners to raise a minimum of $2,000, using personal credit card information to bind the agreement.

Although $2,000 might seem like a daunting obligation, spots are in high demand since the alternative way to earn an official Boston number is to complete a qualifying marathon at a 10-minute mile pace. Plus, charity runners often reap benefits beyond the numbers pinned to their shirts. The Dana-Farber Marathon Challenge (DFMC), subsidizing innovative cancer research, provides a training program supervised by former Boston Marathon champion Jack Fultz, weekly group runs, access to local facilities, and an indoor meeting area at the start and finish lines. These perks may explain why DFMC receives twice as many applications as its 300-plus allocated spaces. Not to ignore the cause: the average Dana-Farber runner raises twice the minimum, reflecting the value they place on cancer research and this experience.

For the runners, the marathon is about more than just raising money. The lengthy duration of a city marathon allows for

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ILLUSTRATIONS BY GARY CLEMENT

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numerous interactions with enthusiastic crowds, creating a forum for promoting the importance of their cause. For athletes who have suffered a personal loss, the marathon is an opportunity to convert emotional anguish into a physically challenging fight against a disease. The long hours of team training and race day fans form a social network of invaluable support to DFMC's members. Both fundraising and running a marathon are challenging tasks, yet the two complement each other such that the mission as a whole is more than the sum of its parts.

—Anne van Grondelle

FROM READERS

Back to college

Thank you for the article by Claudia Goldin and Lawrence Katz on "The Shaping of Higher Education in the United States and New England" (Q4 2001). The data on public spending and enrollments by state were particularly helpful.

In citing the establishment of private colleges in New England, however, Goldin and Katz did not mention that many were formed by religious groups: Harvard by Congregationalists, Boston University by Methodists, Tufts by Universalists, Holy Cross and Boston College by Jesuits, and Northeastern University and Springfield College from the YMCA movement. In addition, Harvard accepted state appropriations for almost two centuries and was an early prototype of a quasi-public college, designed to provide preachers and teachers for church and state. Economists rarely look at the influence of religion, but even today 40 percent of college freshmen consider "integrating spirituality into my life" as "essential" or "very important," according to a survey undertaken by UCLA and the American Council on Education.

As to whether a philanthropist will ever again have his or her name on a first-rate private college: The Franklin W. Olin College of Engineering, in Needham, Massachusetts, was established after a 1997 gift of $300 million from the foundation created by F.W. Olin, of Olin Industries. It was designed to be both first rate and free. Perhaps it's still early to rule out either Bill Gates or Ted Turner!

Joe Cronin
President of Bentley College, 1991–97
Secretary of Education,
Commonwealth of Massachusetts, 1971–75

perspective

Manufacturers should be liable when computer bugs leave consumers in the lurch

By David Banisar

IN EARLY JUNE, Microsoft announced a serious flaw in a number of its programs—including Internet Explorer, Messenger, and Chat—that could allow a hacker to take control of a user's computer to run programs and access information. This was not the first such announcement by Microsoft this year of a major error in its programs, nor is Microsoft alone in this problem. Every day thousands of computers around the world are disabled or illegally entered because of system and software flaws. At best, these bugs are minor nuisances. But at worst, they open systems to viruses, denial of service attacks, and manipulation by outsiders. The consequences include fraud, release of personal and proprietary information, and loss of business due to downtime. A recent study by the National Institute of Standards and Technology found that software bugs cost the U.S. economy nearly $60 billion each year.

There is no single reason for these problems, but the majority of security holes are due to poor programming and a lack of quality control. Systems and software manufacturers typically place far more emphasis on getting a new system out to market with more profitable features than on ensuring that the system is satisfactorily error-free before it is released. The burden then falls on users to identify and track bugs and fix them before they cause a system failure or are exploited in cyberattacks. There is no other consumer product for which consumers are expected to do so much to ensure product safety, and the creators so little.

THE MISSING INVISIBLE HAND

The computer industry's response is that the market should resolve the issue. Users should select software based on its reliability, and the least flawed programs will win. But thus far, market forces have not succeeded in improving software safety. Why? For many types of software, consumers don't have a real choice. Oracle, for instance, controls the market for enterprise database software, with three to four times the market share of its nearest competitors. Recently discovered bugs in its purportedly "unbreakable" latest release, Oracle 9i, did not prevent the company from maintaining this dominance. Its users, especially those with years of data on its system, are so dependent on its products that they have no credible way to threaten Oracle