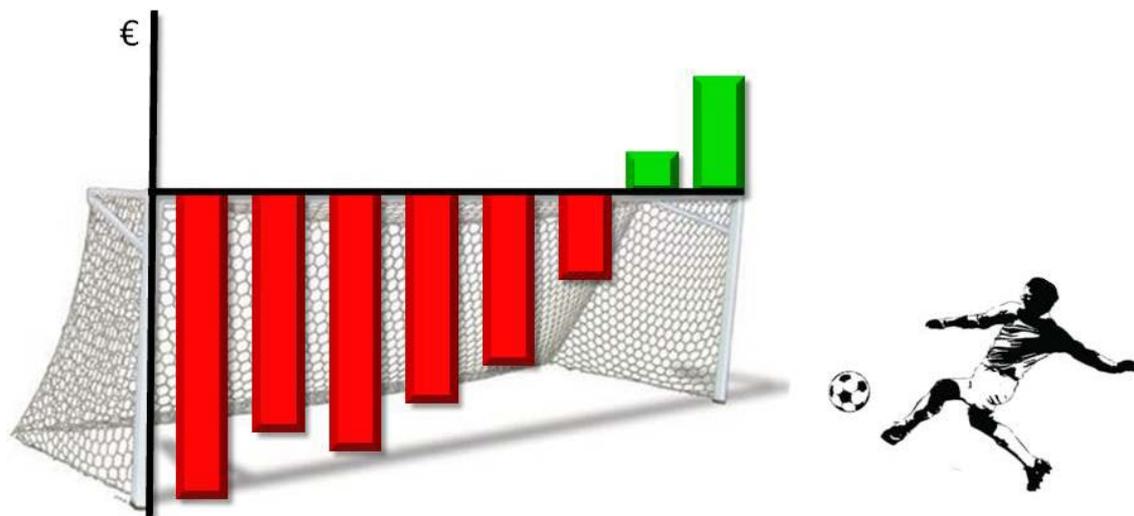


# *Football's financial fair play in a win maximizing environment*



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## Preface

This bachelor thesis is written as a part of the bachelor Management and Consumer Studies at Wageningen University. The thesis is the result of my research into literature on the financial situation in European club football. This topic inspired me because, management issues and decisions in sport management, due to different management objectives, differ significantly from conventional management issues and decisions. More specifically, the football market is an interesting field of research because of large financial flows and high interest for the sport, worldwide. European football is of increasing importance to ongoing research because it is a huge and fast growing business, operating worldwide but still lacks systematic knowledge (Dolles and Söderman 2005) .

The primary reason for writing this thesis, is because of the downward trend football clubs are facing. Expenditures are increasing dramatically and European football clubs experience large losses. This thesis aims to provide an insight in the motives of football clubs to overspend and addresses possible regulations that could change football club management. Hereby the focus is on the recently introduced financial fair play regulations, initiated by the UEFA to support fair competition and long-term financial stability.

During the process of writing this thesis I tried to combine scientific research, as a starting point for theory, with the practice of European club football. Regarding the practice of European club football, I aim to give an overview of important characteristics of the financial situation of European football clubs in practice.

First, I would like to thank the different professors, that contributed to my understanding of the value of scientific research and educated me about management and business administration issues. Towards the content of the thesis and the process of shaping my thesis, I would like to thank supervisor Dr. Christos Kolympiris for his input, advice and supervision. I certainly enjoyed exploring management issues in European club football from a broad perspective and hope this thesis provides some interesting new insights into this interesting field of club football.

Wageningen, 2012

Sander Kool

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## ① Introduction

Football is the most popular sport worldwide. The European football market increased by 4% up to an impressive 16,3 billion Euros in 2009/10 despite the financial recession in recent years (Deloitte 2011). At the same time, football clubs spend large amounts of money on the salaries and transfer fees of football players. In football, wage costs often surpass the benefits from revenue growth. For instance, for a second successive year the increase in wage costs was higher than revenue growth in the Premier League. As a result, the league's wages/revenue ratio reached an all time high of 68% (Deloitte 2011). Since the foundation of the British Premier League in 1992, the combined clubs in the biggest European competition never made a collective pre-tax profit due to their high expenses (Hamil and Walters 2010). In addition to Premier League clubs, first division clubs in Spain, Italy and France are also suffering large debts, despite the increases in revenue (Deloitte 2011). Those debts are often the result of high investments in top football players, therefore these indebted clubs tend to be the strongest performing on the pitch and highest revenue generating clubs in their country (Deloitte 2011). Thirty years ago the threat of insolvency for football clubs was still a rarity in England. In contrast, more than half of the members of Football League Division 1 and 2 in 2008/09 suffered an insolvency event, in recent years (Beech, Horsman et al. 2010). To sum up, in order to perform well on the pitch many clubs in the biggest competitions in Europe made large losses, caused mainly by large expenses on wages, which created considerable debts.

The goal of this thesis is to analyze this trend using two different points of view. First, from a club's management perspective, illustrated by football clubs in the 'big five' European leagues; England, Germany, Spain, Italy and France. What can these major clubs do to change their policies and activities in order to create a financial healthy business which is also performing well regarding the clubs' objective of winning matches on the pitch? Secondly, from the view point of organizing bodies like the Union of European Football Associations (UEFA) and the Fédération Internationale de Football Association (FIFA). How can those organizations implement regulations in football leagues in order to guarantee financial fair play and a competitive balance in the European football market?

In order to address these research questions, a theory relating the management of football clubs will be introduced. This will be achieved by incorporating the importance of different stakeholders in combination with the different goals of a football club. This theory will be used as a starting point to stress the previously mentioned trend in the football business.

The theory regarding football clubs will be introduced in chapter 2. Furthermore, chapter 3 will go in depth about the European football market in practice. In chapter 4, possible solutions for the unhealthy financial situation faced by major European football clubs will be introduced. In this chapter the emphasis is on UEFA's Financial Fair Play regulations. Finally, this thesis provides a conclusion in chapter 5.

## ② Theory

### 2.1 Sportive vs. financial performance

Football clubs can be seen from two different perspectives. Football clubs can be analyzed as a profit maximization business, an organization which generates revenue by delivering and organizing a product, a football match, for consumers, in this case the football fans. Football clubs are in fact part of the 'entertainment industry' by creating a product called football which is admired by millions of football fans around the world. The quality of football matches depends for a large amount on the level of competition in a league. A high level of competition between football clubs in combination with an uncertain outcome of football matches will keep competitions attractive to fans and maintain the popularity of the sport. The revenue generated by broadcasting rights, gate attendances and merchandise can be seen as income for the organizations. In order to 'deliver' the best product, these organizations have to invest in their playing squad, stadium, marketing etc. Though, clubs should consider controlling these expenses in order to achieve a financial healthier football organization. Financial performance should be measured in profitability and not in terms of revenue, although high revenue streams are definitely important and an indicator of the size of the football club. However, the aspect of generating money by being profitable takes priority. Increasing revenue and cost reductions, however, can therefore better be seen as means of achieving this profitability. This is illustrated in figure 2.1a, which gives an overview of the definitions used in this thesis.

	Definition	By means of
<b>Sportive</b> performance	Winning matches	Playing well
<b>Financial</b> performance	Profitability	Increasing total revenue / decreasing total costs

Figure 2.1a (source: author)

Another way to analyze football clubs is to use a 'utility maximization' perspective, in this thesis referred to as sportive performance. The achievement of success on the field of play, is the key objective for football clubs regardless of what levels of the professional game they compete at (Hassan and Hamil 2010). Success of a football club can be achieved by winning domestic league titles and cups, high performance in international leagues such as the UEFA Champions League and UEFA Europa League and so on. The European football market can best be characterized as a win maximizing environment, with increasing wages in order to maintain or achieve a good position in the competition. With sportive performance of football clubs, the ability of a club to win football matches is meant. This will result in higher positions in domestic leagues and cups, and European leagues. A possible way to realize this sportive performance as named in figure 2.1a as, playing well, is by means of the ability of football teams to play football by using a high level and attractive style of football. This last aspect is hard to measure or define, but can be a meaningful element for a couple of important stakeholders, such as fans, media and sponsors. A typical style of playing associated with a specific football club can really enhance the image of this club towards these stakeholders.

Sportive and financial performance are difficult to separate. These two different kinds of performance indicators are often correlated. When a club wins more football matches its revenue stream will increase and this could result in growing profits. The other way around, when clubs are bounded by financial regulations from organizing bodies or banks, they can't afford to spend money

on new football players. This is likely to decrease the sportive performance of the football club. It is important to note that the strong relation between sportive and financial performance is the building stone of the present thesis.

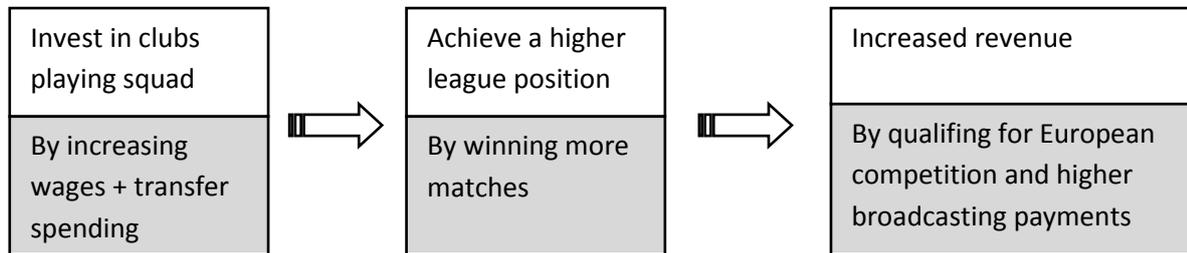


Figure 2.1b (source: author)

Figure 2.1b gives an overview of two important general principles in the football market, the combination of the sportive and financial objective. First, the hypothesis is that increased wage expenditure leads to better league performance. This first principle is supported by the assumption that a team with better players will win more matches and that there exists a well-developed market for players that ensures that better-quality players can attract higher wages (Szymanski 1998). Second, better league performance leads to higher revenue. As club performance improves, revenues grow as a result of qualification for European competitions and additional TV income but also increased attendance, higher ticket prices, increased sponsorship and merchandising (Szymanski 1998). In general, football clubs implementing the strategy according to figure 2.1b probably will reduce their profitability. Since the increase in wages (excluding transfer spending) already outstripped revenue growth in the Premier League, in 2009/10 (Deloitte 2011).

## 2.2 Stakeholder theory

Although the clubs in the European football market are probably focused on winning on the pitch, controlling the expenses will be a challenge that they have to accept. The importance of the two different perspectives discussed in the previous section will be clarified by the stakeholder theory. Stakeholders are defined by Freeman as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman and McVea 2001). In 1993 he stated that stakeholders are "those groups who are vital to the survival and success of the corporation" (Evan and Freeman 1993). As stated by Friedman the purpose of the organization is to manage the interests, needs and viewpoints of its stakeholders (Fontaine 2006).

A football club should be aware of the different stakeholders influencing the club. In figure 2.2 an overview is made regarding the eleven most important stakeholders of a football club, from a management perspective. The terms attached to the "connection" arrows define the kind of achievement the stakeholders prioritize or impose with respect to the football club. Again, a distinction is made between the sportive or financial performance of the firm. A next step is to cluster the different stakeholders according to a stakeholder model. Here, the model of Mendelow (1991) will be used, in which stakeholders will be clustered in different segments based on their power and level of interest. Interest is the stakeholder's willingness (how much they care) while power is the stakeholder's ability to influence objectives (how much they can). The multiplication of both power and the level of interest of a stakeholder determines the total influence of the

stakeholder on the organization (Campbell 2009). Using Mendelow's matrix the organization will be able to identify which strategy towards each group of stakeholders is required. Mendelow's model was applied before in a research with respect to stakeholders considered by football clubs (Bailey 2003). In this thesis, however, stakeholders considered and the application of Mendelow's model differ slightly. For example, football players are considered to have more influence on the football organization due to their high power.

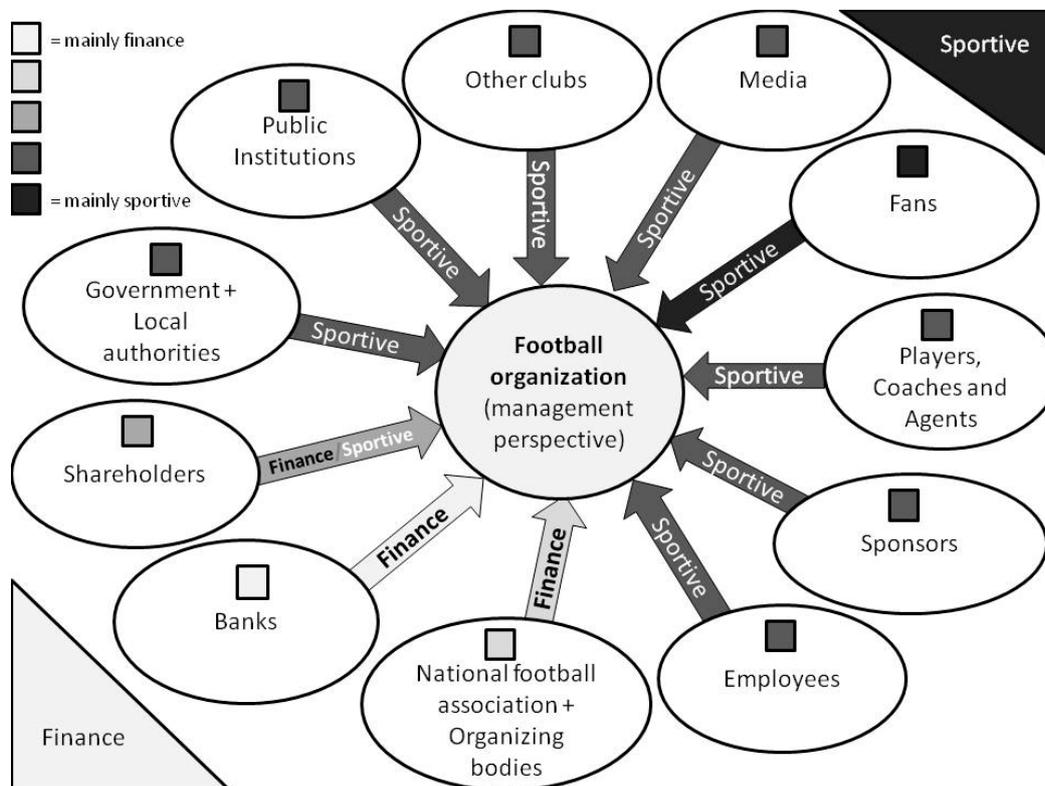


Figure 2.2a: Stakeholder map of a football organization (source: author)

Consider the four different groups of stakeholders according to Mendelow's four dimensions; minimal effort, keep informed, keep satisfied and key players. Analyzing these clusters and the corresponding stakeholders gives an insight in what way each group of stakeholders should be dealt with.

### 2.3 Key players

Those stakeholders with high-interest and high-power, located in the bottom right of Mendelow's framework, are called key players. This group of stakeholders has the largest influence on the decision making process of the football club. Most of companies efforts have to be focused on this segment (Mendelow, 1991). If these stakeholders disagree on the way forward, there are likely to be difficulties in decision making and ambiguity over strategic direction (Campbell 2009).

#### Fans

Fans have a considerable amount of influence on the performance of the football club. Their demand for success forces the club to the employment of the best players that a club can afford. Organized fans can even manage to turn out the manager of their club by putting pressure on club's management. Due to the fact that an income stream is related to the gate attendance and

merchandise they have power to influence decision making on a football club organizational level which can have big financial consequences (Anagnostopoulos 2011). But the main objective of the fans regarding "their" football club is to win on the pitch. This statement explains the "sportive" arrow used in figure 2.2. At least on the short term, fans do not really care about the financial performance of the football club. They buy match tickets to watch an entertaining game of football which has to be won by "their" football team. Automatically fans expect their football club to recruit the best players to win. According to Mendelow's model, the clubs should have a protectionist attitude towards them because they are key players. Surely, because they are final customers of the game (Bailly 2003).

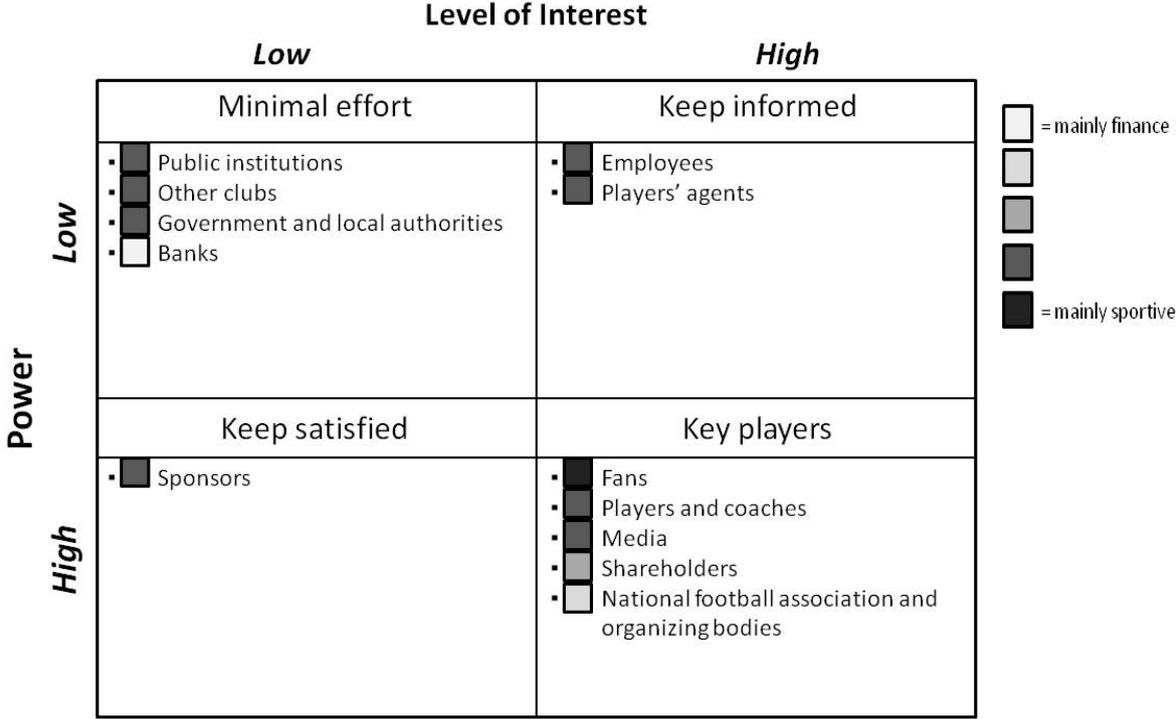


Figure 2.2b: Mendelow's matrix applied on a football organization (source: (Bailly 2003), edited by author)

Players and coaches

Football players nowadays have monopoly of power over their talent. Football clubs have to agree long-term contracts if they wish to earn back the value of their investment in players. The football club is forced to adopt a long-term perspective in the conduct of their business. Football players have power and can earn high wages because their career is both brief and uncertain due to the risk of injuries throughout. Although players have long-term contracts, the best players from relatively small clubs exert considerable pressure on managers of the clubs stating that they will leave their current club and play abroad where they can earn higher wages and play in a preferable better football league (Anagnostopoulos 2011). Although high wages are relatively of high importance for football players and coaches, wages do often not depend much on profitability of the club and therefore football players' most important expectation towards the club is achieving sportive success. Football players and coaches want to win trophies and league titles playing in or coaching a well performing European team such as Manchester United or FC Barcelona. The power of the coaches and players on their club has almost no limit. They are the key to performance on the pitch and represent the

image of the club (Bailly 2003). If players and coaches underperform or perform above expectations the decision-making process of the organization of the football club should probably be adapted.

### Media

Media consists of sport newspapers, football TV programs, other journalism activities based on football and last but not least the media industry, consisting of broadcasting companies. It differs per country to which extent sport newspapers are considered 'neutral'. In a country like Greece a majority of the news papers has affiliations with certain football clubs (Anagnostopoulos 2011). Media and football clubs have a mutual relationship. From the managers point of view, they can use newspapers and sport TV programs to form public opinion. On the other side, the journalists are somehow depended upon the football clubs to get timely, valid and exclusive 'from within' information. The power of the media relating to the population should not be underestimated, newspapers for example can reach a high amount of people, thus is it important for managers of football clubs to determine well-thought-out communication strategies by using these kind of stakeholders (Anagnostopoulos 2011). The media industry consists for a large part of broadcasting companies. The power of the media industry in football is major, because football on TV and Internet will reach millions of people worldwide. When football clubs are doing well, the media industry will make larger turnovers because of the higher interest from fans in football matches.

### Shareholders

Only a limited number of European football clubs have to deal with shareholders. In Europe 27 football clubs are publicly listed. For these clubs shareholders are rather important stakeholders, because in fact, they own a part of the football club (Baur and McKeating 2011). One could think, that an average shareholder compares alternative investments solely on the basis of shareholder value and dividends (Franck 2010). This is only partly true because a football organization differs a lot from a conventional business. Shareholders of football organization are also buying shares because they are fans and want to support the club. In England it is practice that fans buy small amounts of shares of "their" football club. Utility is thus not only triggered by the profits the football club makes but also certainly depends on the sportive performance. Considering power, one small shareholder probably lacks influence, however, when taking into account all shareholders, their power seems obvious. In fact, the shareholders own the club. When a shareholder has a large amount of shares, his influence on the clubs' strategy will increase. Shareholders with even a majority amount of shares could differ from regular small anonymous shareholders in terms of interest towards the club. These investors do not have a regular financial objective anymore, but they may use the football club as their "plaything", their passion, to achieve sportive success. Although there are different kind of shareholders, with different kinds of interest and power, the general strategy towards these kind of stakeholders is to manage them as "key players".

### National football association and organizing bodies

The organizing bodies have to control and monitor clubs if they are behaving in line with the law in a financial way. The organizing bodies organize competitions and govern not only the game's rules, but also the administrative rules. With organizing bodies, the FIFA (Fédération Internationale de Football Association) and UEFA (Union of European Football Associations) are meant. The reason that these kind of organizing bodies are financially interested in football organizations, is the amount of control power the FIFA and UEFA possesses. The latter would like to apply the financial fair play requirements for clubs entering a UEFA competition, for the 2013/14 competition season. Which will

put pressure on football clubs to perform in a financial responsible way. The national football association is responsible for overseeing all aspects of the amateur and professional game on a national level. The Football Association (FA), member of both UEFA and FIFA, is the English national football association and sanctions all competitive football matches in England. Furthermore, the FA wants to encourage and increase the involvement of groups at all levels of football by recognising that inequalities exist and taking steps to address them (FA 2012). The Royal Dutch Football Association (KNVB) is a pioneer regarding financial control executed by national football associations. The KNVB has established three categories of national football clubs based on financial performance. Category 1 consists of football clubs under tight supervision and in consultation with these clubs the KNVB set up individual plans of remediation (KNVB 2012).

## **2.4 Keep informed**

Stakeholders with high interest but low power, the "keep informed" group, can increase their overall influence by forming coalitions with other stakeholders in order to exert a greater pressure and thereby making themselves more powerful. When this is achieved they will move downwards in Mendelow's framework, because their overall influence is increased. The management strategy for dealing with these stakeholders is to keep those stakeholders informed without giving them as much attention as the "key players" (Campbell 2009).

### Players' agents

The increasing level of transfers caused by the Bosman case in 1995 resulted in an increasing importance of player's agents. According to the UEFA an agent is "a natural person who, for a fee, introduces players to clubs with a view to negotiating or renegotiating an employment contract or introduces two clubs to one another with a view to concluding a transfer agreement" (UEFA 2010). Agents do not have direct influence on clubs' strategy, but they are essential in any transfer. From a club management perspective agents cost money because they ask for a financial retribution on each player's transfer from a club to another (Bailly 2003). A positive characteristic of player agent's is that they can give the club additional information with respect to their scouting networks and knowledge about the transfer market. Clubs recognize that agents' administrative and negotiating skills are useful when realizing a player transfer (Bailly 2003). Players' agents can thus increase their low level of power by forming a "coalition" with the stakeholder "football players" from the cluster "key players". In fact, they are in charge when players feel the desire to move to another club. Because players' agents state that they are very committed with "their" players they should prioritize about the same objectives regarding the football clubs.

### Employees

Another stakeholder to which the management of a football club only should provide information, are the employees. Regarding this stakeholder, employees are meant who have a function below the top management layer, excluding players and members of the coaching staff. They of course have a very high interest in the organization because they work for the organization, executing orders from the management. Meanwhile, their power is very low. Football players have a lot more power because they represent the value of the organization, and the majority of the wages is spent on them. Because the employees are strongly connected with the club, they would prefer that the club performs on the pitch, just like a large number of other stakeholders. Then they feel part of the success. However, when the club has very large financial problems their jobs could be at risk. One

should consider that sportive and financial performance are often correlated: when the team wins, clubs get more income and is able to invest in training or commodities for their employees (Bailly 2003).

## **2.5 Keep satisfied**

Stakeholders with higher power but a lack of interest can be found in the bottom left of Mendelow's framework. All these stakeholders need to do to become influential, is to re-waken their interest (Campbell 2009). Football clubs management should keep this group of stakeholders satisfied because of their high power.

### Sponsors

Sponsors associate their name with football clubs to benefit from their popularity. When the team experiences an increase in performance, sponsors should expect notorious brand recognition (Bailly 2003). Sponsor are willing to pay large amounts of money to associate their business with the image of a well performing club in a big football league. However, their interest in the football clubs' organization is limited. They only care about the general performance of the club and their image towards the customers of football. Football clubs commercial departments deals with the contracts of sponsors, but also at the stadium sponsors and managers of the club meet to negotiate about contracts (Bailly 2003).

## **2.6 Minimal effort**

Those stakeholders with neither high interest nor high power, should be largely ignored by the football club. Although some stakeholders in this group, however, should not be largely ignored because of moral and ethical considerations or a high probability for a "minimal effort" stakeholder to move around the map (Campbell 2009).

### Banks

The situation of the club determines how much influence this stakeholder could have on the football clubs' organization. It is all about the financial situation of a football club. Given the fact that around seventy member clubs of The Football League and Premier League (4 professional divisions in England) during the period of 1992 to 2011, have undergone insolvency proceedings, banks could be a stakeholder to take into account (Deloitte 2011). In these kind of situations banks will have power on clubs which have financial difficulties to try to improve their situation. Normally banks only concerns are that football clubs pay on time for their loans (Bailly 2003).

### Other clubs

As stated before, competition is needed in order to produce, as a league, attractive and challenging football matches. Football clubs will see other clubs as competitors or rivals in a league, but they have to realize that other clubs are required in order to deliver an attractive game of football. Other clubs in a league or competition exert pressure on the football club to perform in a sportive way. Unconsciously, in a lesser extent, competitors are also pushing the football clubs to perform financially. Competitors who are financially healthy, should be a role model for a comparable club who faces financial difficulties.

### Government and local authorities

The role of the government is in general very limited. The government and local authorities encourage local football clubs, because these clubs represent the country or a specific region. When they are performing well the region or country will get more attention, and its image will improve. That's why government financially encourages clubs to develop education centers, employment programs and community projects (Bailey 2003). In some cases football clubs rent a stadium from the local authorities to play their home matches in. In these situations the relationship between football organizations and local authorities should be more intensive. In general, football clubs have to manage the government and local authorities as non-important stakeholders.

### Public institutions and NGO's

Public institutions are also clustered in the stakeholder group to which minimal effort is needed from a management perspective. However, there is an exception. When football clubs want to be part of community support, they have to put in more effort to achieve that football remains accessible to everyone in the community, especially to poor people. Because of these moral and ethical considerations these stakeholders should not be largely ignored (Campbell 2009). Another aspect of public institutions considered here are related with football grassroots programme. Commercial revenue needs to be distributed from the commercial revenue generation sectors, in this case the football clubs in the football industry, to the grassroots to enable the sport at this level to prosper. Amateur clubs are a common example of grassroots because they introduce and promote young boys and girls to play football and enjoy it. They support the concept of football to those at young age, to guarantee future health of the professional sport, by stimulating the development of talented players for in the future. Professional clubs have to take care of this stakeholder in order to keep the sport healthy and strong and associate themselves with a football grassroots programme (Hassan and Hamil 2010). Public institutions linked to a football club, will prefer that the club performs on the pitch, because this will affect the public institution or amateur club in a positive way, due to their connection with the club.

## **2.7 Summarized theory**

Football clubs should be aware of their dual objective. Stakeholders are putting pressure on a football club to perform sportively and financially. Fans, players, coaches, media and shareholders, the most important stakeholders, benefit when the football organization performs well sportively. On the other hand, especially the organizing bodies and the national football association and to a lesser extent shareholders will remind the football organization of its financial responsibilities. In general the football organizations' first objective should be to win on the pitch and try to achieve an as high as possible position in football competitions in which it participates. However, this objective is only valid under the condition that the football organization remains saved from any financial difficulties. Otherwise, the football organization will be confronted with for example the Financial Fair Play requirements of the UEFA or claims from banks in case the organization isn't able to pay back their loans on time. In the end this could affect the sportive performance of the football club, due to, for example, exclusion from a UEFA competition. Sportive performance should be maximized by clubs in order to please stakeholders, under the financial constraints set by stakeholders.

## ③ Practice

### 3.1 Introduction

Following the theory part, football clubs have to consider the influence of different stakeholders and their dual objective regarding performance in a sportive and in a financial way. In this chapter the focus is on the practice of the European football market. Do football clubs pursue the right strategies towards their stakeholders? Are they aware of their financial responsibilities and do they comply with them? First, a new revenue model will be analyzed which is used in practice by football clubs. This model has many similarities with the theory developed in chapter 2. Section 3.3 goes in depth about the unprofitability in football, providing information about income, costs, profitability and debts. Secondly, the European transfer market will be investigated. Clubs should weigh in mind what activity on the transfer market is required to please both types of stakeholders, but does this happen in practice? This chapter goes in depth about the management activities of football clubs in practice and whether they behave according to the developed theory in the previous chapter regarding their dual objective and their stakeholders, with an increased focus on their so called "key players".

### 3.2 MCMMG-model

#### History

In the 21st century most top-level European professional clubs are generating revenue streams in line with the Media-Corporations-Merchandising-Markets-Globalization model (MCMMG). A handful of downward trends provoked the implementation of this new model. The main sources of revenues of the clubs until the nineties were ticketing, local subsidies and local sponsors (Dejonghe and Van Opstal 2008). Gate receipts were the primary source of revenue for a professional sports club in that time (Andreff 2007). In 1970/71, in France and Italy the gate receipts in the First Division in percentage of the total turnover fell from 81% (France) and 71% (Italy) to 50% with respect to France and to 36% in Italy in 1998. Thus, the importance of gate receipts decreased in this period of time. Also, subsidies have declined in countries where they were not already banned (Andreff and Staudohar 2000). Furthermore, the importance of local sponsorship has decreased significantly during the nineties as the football market became more and more globalized.

#### Nowadays

These trends described in the previous section have led to different and larger revenue streams, described as the MCMMG-model. The main pillars of this model are the merchandising and especially the TV broadcasting rights. Due to the globalization and other market changes revenue streams from sponsors and match day activities are nowadays also very important for European football clubs. Different kind of revenue streams will be addressed in order to compose a general revenue structure illustrative for a major European football club.

#### *Merchandise*

In the last 20 years specialists are doing a much better job promoting a larger variety of team merchandise to a greater number of people worldwide. The development of Internet and the globalization of the world certainly have helped professional football clubs reaching new markets. An illustrating example is the interest of football fans from Asia for major European football clubs. Fans

have access to merchandise and can view "their" clubs' matches all over the world. They are the end consumers of the sport and will always be "key players" towards clubs according to Mendelows' framework. Illustrating the importance of this revenue stream, merchandise in combination with sponsorships represent 36% of the total revenue earned by the richest football club in terms of revenue, Real Madrid (Deloitte 2012).

### *Broadcasting*

The relative importance of television has increased in the football business. Television had become the main source of professional football finance. This explains why the media industry also belongs to the "key players" for a football club. A major reason explaining the rise of broadcasting revenue, is increased competition in the industry. Because the broadcast industry discovered the television potential of football and seeing more and more broadcasting competitors, major professional football clubs were able to realize lucrative television broadcasting deals (Andreff and Staudohar 2000). This resulted in broadcast revenue becoming the number one revenue stream for highest division clubs in England, Spain, Italy and France. When considering the "'big five'" leagues (Germany added), broadcasting revenue accounts for 48% (!) of collective "'big five'" revenue (Deloitte 2011).

### *Sponsorship*

Clubs have been able to deliver significant increases in commercial revenue, through sponsorships, licensing and other commercial deals, such that this revenue stream now totals €2.5 billion, 30% of the "'big five'" leagues revenues (Deloitte 2011). Because of this major revenue stream that clubs attain from sponsors, their power is high compared with other stakeholders. Sponsorship is thus a very important stream of revenue for football clubs and declares why sponsors should be considered as "key players". Bayern Munich is a good example of a football club that receives very high revenues from sponsorship. The German football club recently extended its kit sponsorship agreement with Adidas, worth a reported €25m annually, for a further eight years until 2020. Furthermore, Bayern Munich signed an extension to its premium partner sponsorship with Audi and the club is in talks to secure a partnership with Russian energy company Gazprom (Deloitte 2012).

### *Match day/gate attendances*

During the first decade of the 20th century, each year, the capital expenditure on stadia and facilities by English clubs exceeded £150 million. Over the last 20 years 30 new Premier League and Football League clubs have been built new stadia (Deloitte 2011). This automatically resulted in higher attendances and stadium utilisation for English clubs. For example, France's successful bid for Euro 2016, resulted in redevelopments of French stadiums. The Stade Vélodrome of Olympique Marseille will increase in capacity with 16,000 places to 67,000 places (Deloitte 2012). On the long term many French clubs will experience a rise in match day revenue due to the redevelopments of their stadium for Euro 2016. In 1991/92 Premier League clubs' revenue streams coming from match days totalled £82 million and almost 50% of total revenues. For 2011/2012 match day revenue is expected to equal £555 million and not more than 25% of total revenue (Deloitte 2011). This gives a proper indication about the enormous rise in match day revenue Premier League clubs have experienced, although other revenue streams (commercial and especially broadcasting) increased more in absolute numbers and in proportion during the past 20 years.

### *Public offering*

During the last years of the 20th century European professional clubs were leading the world in selling stock to the public. From 1992 to 2001 stock exchange listings of football clubs in the Premier League were valued circa £175 million and this type of financial funding was a key trend during that period in the Premier League (Deloitte 2011). In the last 10 years the amount of clubs floated is decreased, however it is still a relative new way of finance by using the funds collected from stock sales to modernize or extend stadium capacity, repay debts, train young players or recruit 'star' football players. Professional football finance is globalized, there is no longer a necessary link between the nationality of the professional clubs and the television broadcaster, or the company that has an investment stake, or the stock unwriter, or (maybe most important) the players on the field. In general football clubs do not benefit in terms of on-pitch performance (Andreff and Staudohar 2000). However, the stock market listing can have other beneficial effects, such as increased financial discipline with gains accruing in the longer term. Moreover, a public offering might have helped the football club to avoid bankruptcy or the sale of important football players (Baur and McKeating 2011). On average, it can be assumed that most of 27 European clubs, that are publicly listed, raised less than 50€m from public offering (Baur and McKeating 2011). In the 20th century football clubs going public are rare and the stock market listing accounts only for a small fraction of the total funding being raised. The governance structure of a publicly listed football club is not optimal in an overinvestment environment in which football clubs operate argues Franck (2010) (Baur and McKeating 2011).

### *Take-overs*

Another source of income that is in line with the overinvestment environment in football relates to the recent equity investments by large shareholders. The takeover of Chelsea by Roman Abramovich in 2003 and the takeover of Manchester City by the Abu Dhabi United Group in 2008 are illustrating examples of this trend in the last decade. Consistent with the developed strategy these stakeholders have both influence on the financial and sportive performance of the club. These takeovers were improving financial results by the millions of dollars both 'entrepreneurs' invested in the club. Their real orientation was rather on a sportive field, because they invested with the intention to win league titles and to stand out of the rest. Both clubs were overspending millions of dollars by buying dozens of star football players after the takeover of the clubs. The investors primary goal was not to improve the financial results of the club by making profit through ownership and control, but to achieve high sportive performance. Sheiks Mansour Bin Zayed Al Nahyan's investment in Manchester City has increased to over £0.5 billion, while Roman Ambramovich's investment in Chelsea now stands at c. £800 million. These shareholders realized that they will never break-even on their project, because the returns won't match the original investments. However, this development can be seen as a new way of funding for professional clubs (Deloitte 2011). The total investments made by new owners or caused by a change of majority ownership in the Premier League equals almost £2 billion (Deloitte 2011).

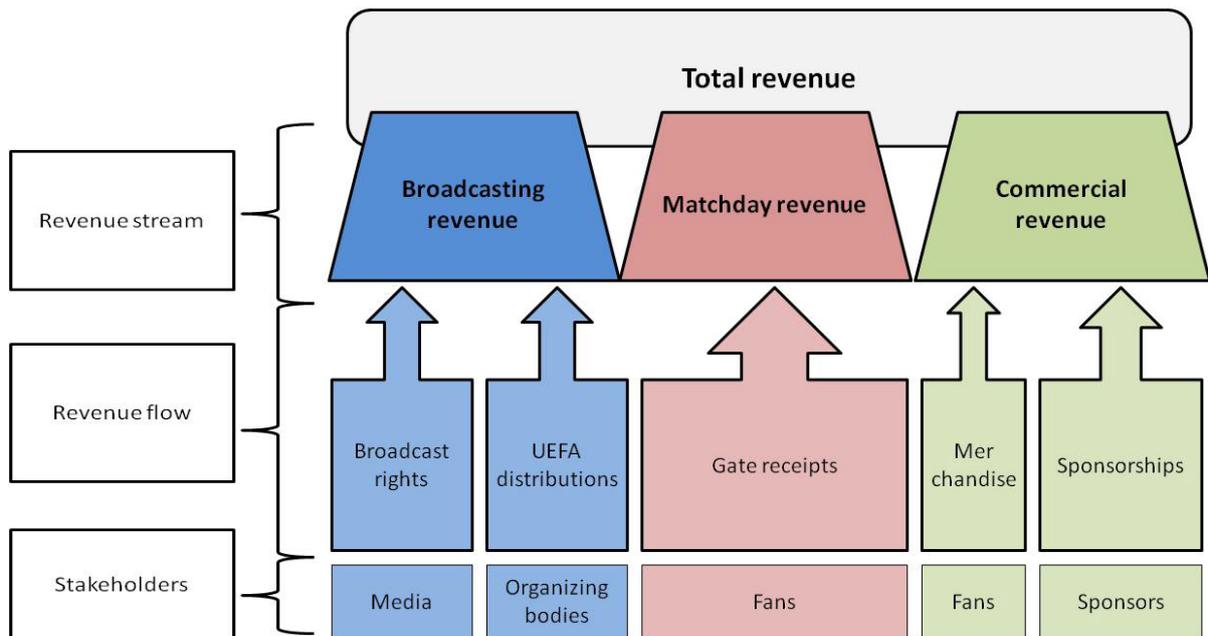


Figure 3.2: General revenue structure average European football club (source: (UEFA 2010; Deloitte 2011), edited by author)

Based on the revenue sources identified in the previous sections, a figure about the revenue structure is developed. For the sake of clarity, income generated from investors and shareholders cannot be seen as revenue generated from football related activities, because these kind of incomes can best be defined as financial income streams. Therefore, these types of incomes named as take-overs and public offering are not mentioned in figure 3.3, which gives an overview of the most import revenue streams an average European football club in the 21th century will experience. Note that, the size of the boxes does not align with the percentages of total revenue. In practice, football clubs in different leagues differ a lot in terms of revenue structure. German football clubs rely in practice a lot on commercial revenue. In 2009/10, Bayern München and Schalke 04 relied for more than 50% on this type of revenue (Deloitte 2011). Italian clubs are examples of clubs that generate revenue largely from broadcasting rights, with AC Milan, Internazionale and Juventus all reporting more than 60% of total revenues coming from broadcasting source in 2009/10 (Deloitte 2011). However, in the coming years this is likely to change as in the Serie A broadcast rights will be distributed through collective selling instead of individual bargaining.

### 3.3 Overspending

#### Situation

The MCMMG-model resulted in higher revenue streams, but this is not a guarantee that the overall profitability in European football has improved. Note that the costs of football clubs have increased too, because the revenues earned with the MCMMG-model have largely been spend on player transfers and mainly player wages. The situation in the two top leagues in Europe in terms of match day revenue, England and Spain, is concerning and illustrative for the 'big five' leagues. Analyzing the biggest European competition, clubs in the Premier League weren't able to make a pre-tax profit in 2009/10 with the exception of four clubs (Arsenal, Birmingham City, Wolverhampton Wanderers and Burnley) (Deloitte 2011). Although, revenues are increasing, total wages have outstripped this revenue growth, resulting in a concerning 68% wages/revenue ratio in the Premier League. In the

Championship (second division in England) the average wages/revenue ratio equalled 88%. Clubs in the Championship with ratios close to or over 100% are often dependent on substantial benefactor support. If these owners withdrawn their financial support these clubs can face financial consequences, such as going into Administration like Portsmouth did in 2010, with a wages/revenue ratio of 109% (Deloitte 2011). Spanish clubs have been among the most profligate regarding expenditures on wages and compensation fees. In Spain clubs are not yet public offered on the stock market, unlike some English clubs, and therefore do not have access to that source of finance, also these Spanish clubs aren't constrained by the stock market on expenditure and losses (Ascari and Gagnepain 2006). In the top two divisions of Spanish League football 88,6% of the clubs have operational losses (Barajas and Rodríguez 2010).

At summer 2010, three football clubs in England account for almost £2 billion total debt. Chelsea reporting a net debt of £734 million while Manchester United notated £590 million net debt. Newcastle, in 2010 performing in the Championship, reported the third highest level of net debt; £277 million (Deloitte 2011).

Although in this thesis the reasons behind overspending already are shortly mentioned, in this section a more complete list of motives behind overspending in football will be introduced. In general, all these motives align with the figure developed in the theory part of this thesis. In sum, the first and often only objective of football clubs in general is to improve sportive performance of football club by investing money in the playing squad. When the football club is improving in performance on the pitch additional revenues will be yielded and hopefully the investments will be earned back by these additional revenues.

First, a strong correlation should exist between investment in players and winning probability (Franck 2010). This statement can be underpinned by using figure 2.1b drawn up in chapter 2. The first two boxes give an indication of an important relationship. Investment in football players leads to a higher league position by winning more matches, according to the hypothesis in figure 2.1b. One could address two indicators for investment in a club's playing squad. First, high wages indicate that the football players in a team are valued high by the club's management, therefore the football players are expected to perform in line with the level of wages. Furthermore, high transfer spending shows an improvement of the squad in terms of market value. Because the squad should normally perform better with better football players, increasing transfer spending also seems to be a proper indicator for winning more matches.

For both investment characteristics evidence is needed out of practice. Are investments in football players and achieving a high league position related in practice? Consider total wages in the Premier League. In the season 2009/2010, the eight football clubs in the Premier League that paid the highest wages for their players, all ranked from first to eight with respect to their league position in the Premier League, according to figure 3.3a. Chelsea, the club with the highest wages in that season of £174 million, won in that season the Premier League, indicating the correlation between investment and winning probability (Deloitte 2011). In addition, figure 3.3a makes also a distinction between relatively well and bad performing football clubs in terms of total wages and league position. Liverpool and Manchester City for example have an approximately equal level of total wages as Arsenal and Manchester United but finished a lot lower compared to these clubs. However, Birmingham City and Tottenham Hotspur represent the other side of coin. They spend a relatively low amount on total wages compared to their finishing positions in the Premier League 2009/10. The

'big five' football leagues in Europe contains the twenty richest clubs in terms of revenue, those clubs are of course the big spenders in terms of wages and transfer fees. These twenty clubs have won 43 out of 50 domestic league titles available in the 'big five' countries over the past ten years. Those twenty highest revenue generating football clubs have won 9 out of 10 Champions Leagues in Europe in the first decade of the 21th century (Deloitte 2011). Another statistic that shows the relationship between wages and sportive performance, in this case identified as winning titles and leagues.

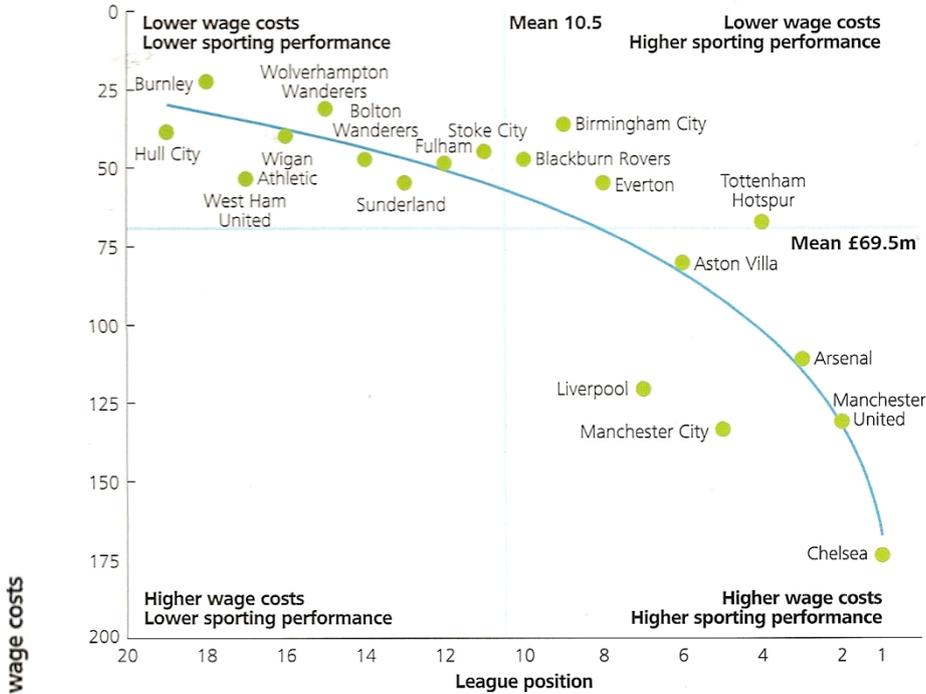


Figure 3.3a: relationship wages and league position in the Premier League 2009/10 (source: (Deloitte 2011))

The hypothesis seems to be supported with respect to wages, though the relationship between achieving a high league position and transfer spending needs to be explored more. Moreover, a dataset is used containing statistics regarding transfer balance and league position in the Premier League provided by www.transferleague.co.uk (Transfermarkt.co.uk 2012). The preference of players for football clubs playing in the Premier League can be justified by the fact that the Premier League is the biggest league in terms of revenue generation and transfer spending. Because the Premier League is regarded as the biggest league in the world, this dataset is extensive and complete. As a time period, the ten Premier League seasons in the time period 2001-2011 are chosen.

Before analyzing a relationship between transfer spending and finishing higher in the Premier League, clarifications regarding variables and a couple of assumptions have to be made. Transfer spending has in fact other characteristics than total wages used in the figure of Deloitte. By transfer spending the difference between transfer expenses and transfer income is meant. When a football club bought football players for a higher amount compared to amount of income earned from sold football players, the result will be a negative transfer balance, indicating an squad investment. Another difficult issue is the effect period of this transfer balance. Assuming the transfer balance of club in the Premier League will influence the league position of the club, how many years should be taken to best measure the influence on league position? In this case the total transfer balance of a club is calculated regarding Premier League seasons 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06. The other variable is average Premier League position during the next five seasons up to and including season 2010/2011.

This implies an effect period of about five years. The target group of "Premier League" clubs consists of fifteen clubs who appeared in a at least seven years of the total of 10 Premier League seasons. Figure 3.3b clarifies the relationship assumed, with on the x-axis the transfer balance and on the y-axis Premier League position.

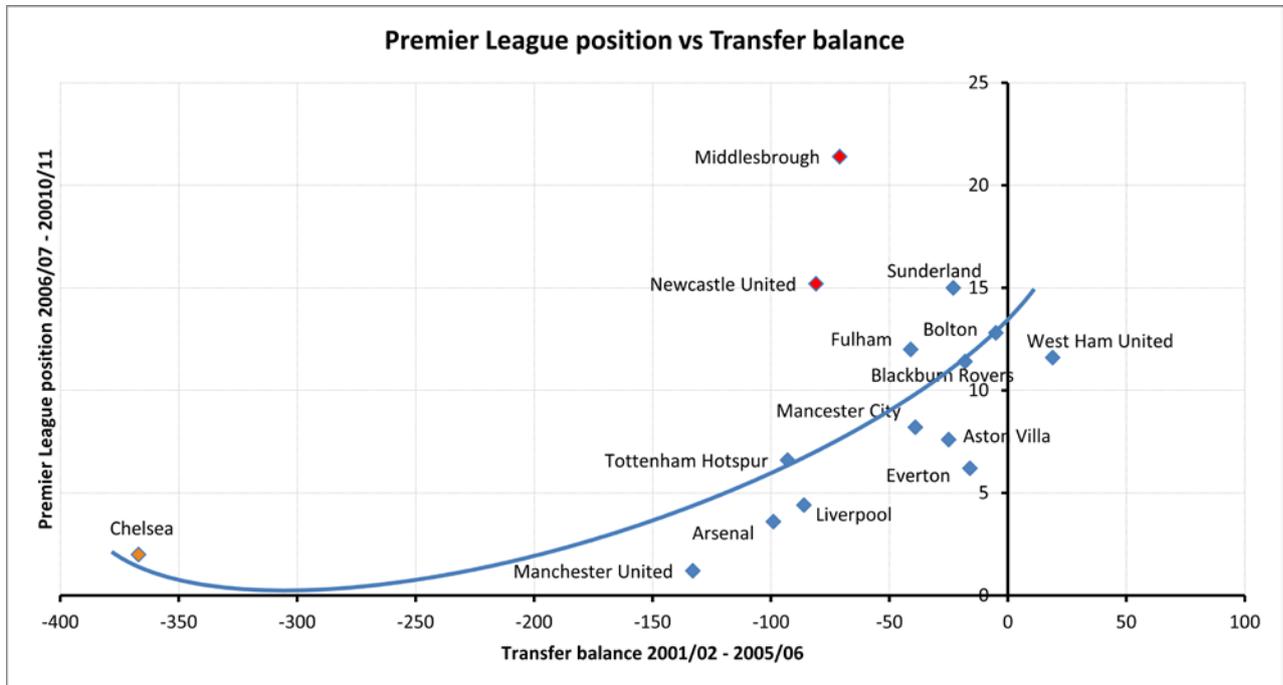


Figure 3.3b: Premier League position vs. transfer balance (source: (Transfermarkt.co.uk 2012) edited by author)

Analyzing figure 3.3b, a relation can indeed be identified between the two different variables. When football clubs produce a highly negative transfer balance during 2001-2005, their Premier League position in 2006-2011 tends to be higher. Tottenham Hotspur bought for 93 million pounds more compared to what they earned from transfers and reached an average league position of 6,6. This implies that the clubs closer to the origin of the figure are performing better than the other clubs. Everton, on the eye, seems to be the best performing football club in terms of transfer spending and Premier League position. Everton played almost breakeven regarding their transfer inflow and outflow, only notating a 16 million pounds loss. Remarkably, this relative low investment in the squad during 2001-2005 led to a decent average Premier League position during 2006-2011 of 6,2.

Unfortunately, a couple of clubs are underperforming. Middlesbrough and Newcastle United, both indicated by the red symbols, invested amounts comparable to those of Tottenham Hotspur and Liverpool, but finished poorly in the Premier League and both even got regulated to the Championship during the period 2006-2011. Although Chelsea finished impressively in the Premier League with an average second position, it seems that the price paid was too high. Chelsea had a transfer deficit of 373 million pounds, more than twice the transfer deficit of the number two Manchester United. Excluding Newcastle United and Middlesbrough the polynomial trend line tend to shift up again due to the high investment of Chelsea. A possible explanation could be that investment only has an positive influence of league position up to a certain amount. Maybe Chelsea experienced an overflow of football players of which a large proportion were second or third choice for the manager resulting in a lot of disappointed football players without confidence which could have decreased overall performance of the team.

Another variable investigated in this section is the change in transfer balance as well as the change in league position. When a football club changes its transfer balance, what is the effect on the league position of that football club? Consider figure 3.3c, the change in Premier League position on the y-axis is calculated by subtracting the average Premier League position during 2006-2011 from the average position during 2001-2005. On the x-axis, the change in transfer balance is calculated by the same way of comparing two different five year intervals.

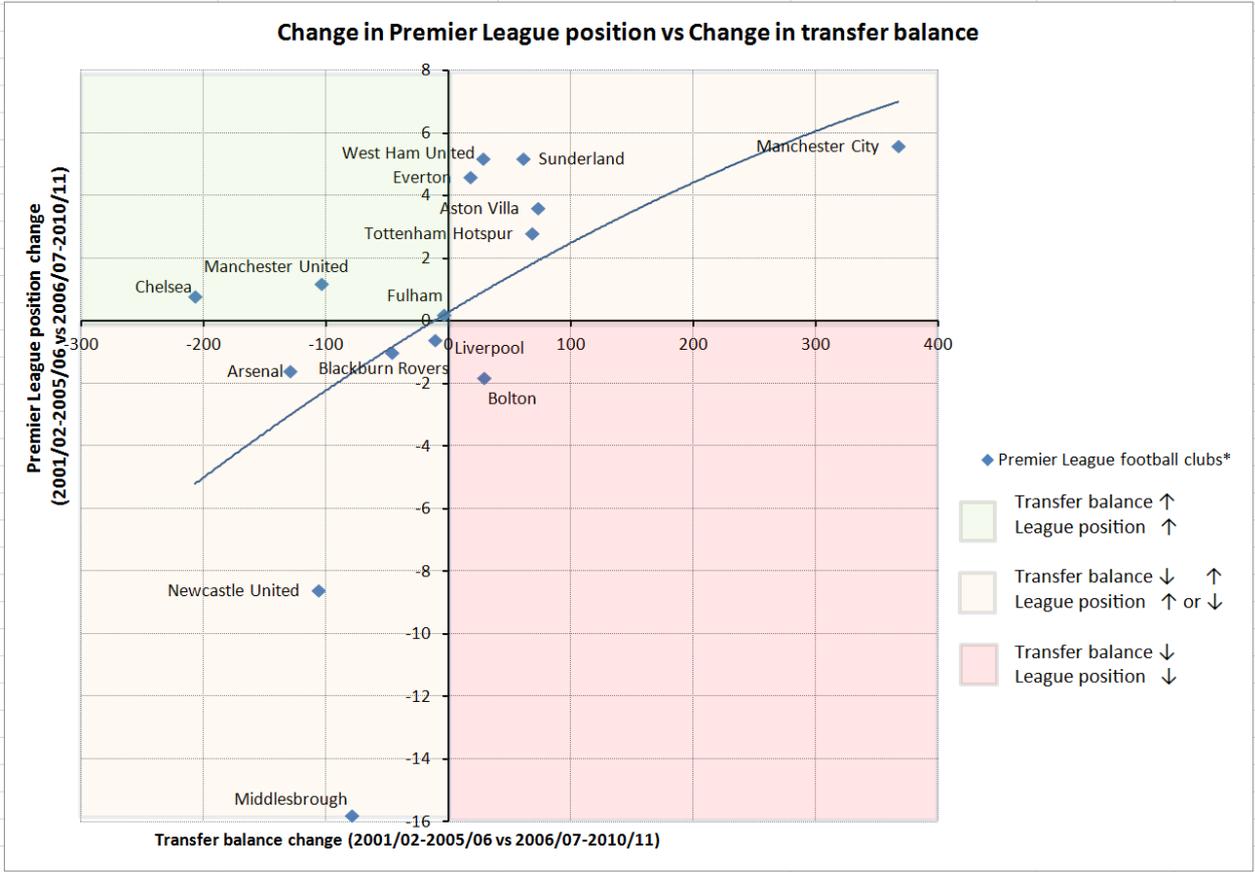


Figure 3.3c: Change in Premier League position vs. change in transfer balance (source: (Transfermarkt.co.uk 2012), edited by author))

Figure 3.3c is split into different clusters. Football clubs located in the orange/yellow area are in line with the hypothesis stated before. Those Premier League clubs faced an enhancement in average Premier League position in relation with an decrease of their transfer balance, assuming more investment in the playing squad. On the opposite of clubs such as Manchester City and Sunderland, this relationship is turned the other way around. Arsenal and Newcastle United for example, have improved their transfer balance but are penalized by a decrease in average Premier League position. The football clubs clustered in orange/yellow form the majority of the football clubs (11 out of 15), implying that there exists a relationship between the change in transfer balance and the contrary effect on league position. Chelsea, Manchester United and to a very small extent Fulham, are examples of both an improved transfer balance and a higher league position in the Premier League. Manchester United decrease its deficit on the transfer balance of 2001-2005 with 104 million pounds in 2006-2011. Although one might assume a downturn in league position, Manchester United improved their average Premier League position by 1,2 places, which is a significant increase for a club competing at the highest level in the Premier League. On the other hand, figure 3.3c points out one real loser in terms of transfer balance and Premier League position change. Seven clubs experience

worsened transfer balances, thus these clubs were investing more compared to what they invested before. Only one of them was not able to improve its average Premier League position. Bolton Wanderers was worse off despite the investment in the squad and is clustered in the square coloured red.

Now that there is an indication that investing in a playing squad through increasing wages could lead to a higher league position, the benefits of a higher league position should be identified. Secondly, certain potential benefits and possible drawbacks are putting pressure on football clubs to perform on the pitch. Of course, like in the developed theory, the football clubs should please sportive orientated stakeholders. But, there are also financial objectives for improving sportive performance. Consider the system of promotion and relegation in many football leagues. Revenue depends for a large part on the league level the football team is competing in. A lower division results in lower TV broadcasting revenue, loss of important players and probably a decrease in match day and commercial revenue. In French football both demotion and promotion from one league to the other, are financial shocks. Demotion deteriorates a club's budget but also promotion can have a negative financial influence on a football club (Andreff 2007). When a football club in France promotes to the highest division, the club is forced to attempt to multiply its turnover by nearly 5 times and creates expectations of new revenues. When these expectations are not met, clubs can experience financial difficulties and may have to borrow money from banks and this will increase debts (Andreff 2007). Besides relegation and promotion, there are more incentives to achieve a higher league position. In the 'big five' European football leagues, football clubs can qualify for European competitions such as the UEFA Champions League and the UEFA Europa League. Apart from the experience a football team will receive from playing against other major European football league clubs, financial compensations are significant. Across European football clubs reaching the Champions' League group stage in 2010/11 about €754 million will be distributed. This would mean that the Champions League is in fact the sixth highest revenue generating league in Europe (Deloitte 2012). In 2010/11 the Europa League distributed €150 million between the 56 clubs reaching at least the group stage. Villarreal earned the highest distribution in the Europa League of €9 million (Deloitte 2012). The importance of performing in a European competition and the resulting financial boost can maybe best be described by the case of German football club Schalke 04. In 2010/11 Schalke 04 performed impressive internationally by reaching the semi-finals of the Champions League. The German football club received €39.8 million in UEFA distributions and therefore more than doubled its broadcast revenue. The club therefore climbed 6 places to become the 10th European football club in terms of revenue generation (Deloitte 2012).

Achieving a higher league position is not without its price. All the football clubs in the Premier League that improved their league position (season 2007/08 vs. 2009/10), with the exception of Fulham, reported wage growth in excess of the extra revenue generated. Manchester City's example is probably the best illustration, reporting wage growth in excess of the extra revenues of £36.3 million and a net transfer spending of £213 million across 2008/09 and 2009/10, resulting in a four place improvement (Deloitte 2011). It seems that the free, unrestrained European market for player contracts and player salaries, promotes the incentives of football clubs to overspend on football players. Section 3.3 will go in depth about this market structure by focusing on different aspects of the transfer system and applied transfer policies by football clubs.

### 3.4 Transfer system and transfer policies

#### Origin of transfer system

As said before, most of these professional football clubs have an incentive to overspend their income on football players in order to achieve sportive success and please their stakeholders. In the Premier League, Chelsea, Manchester City, Liverpool, Tottenham and Manchester United, have spend over £2 billion on football transfers during the period 2003-2011 (Transfermarkt.co.uk 2012). Clubs in the Premier League are considered net importers in football players, which means that they in general will buy football players for a total higher sum of money relative to the money they earned with the selling of football players. This purchasing power in big European football leagues is stimulated by, according to the football literature, the most influential change in the football transfer system in football history. On December 15th 1995 the European Court of Justice in Luxemburg declared in the Bosman Case that the existing transfer system in the European Union was in conflict with article 39 of the EU-Treaty (Dejonghe and Antwerpen 2005). Advocate-general Carl Otto Lenz called for the abolishment of the transfer system in football, on the ground that it, infringes the player's freedom of movement, for one club to demand payment from another before permitting the player to change employers. The European Football Federation (UEFA) had no right to limit the number of foreign players that a team can put on the pitch (Flores, Forrest et al. 2010). The consequence of the Bosman Case was that all players at the end of their contract became agents that were free to move to an international labour market. Market power went from clubs too those players who could sell their talents to the team that offered the highest wages. The Bosman Case made factor mobility of labour possible and resulted in a reallocation of player talent. This created an increasing competition to attract the best player talents. Professional clubs in a win maximizing environment will overpay their players because they are striving towards high sportive success, with potential adverse implications that may explain some of the financial problems in European Football. Under these conditions teams with higher budgets recruit more and better players to increase their profitability to win. Herewith, the importance of the football players as a stakeholder is confirmed. Football clubs treat football players as the key to success in a competition. Buying the best football players on the market will result in an increase in performance level of a football team, a general philosophy used by management of football clubs.

Coming back to the consequences of the Bosman Ruling, the percentage of player moves involving payments in form of a transfer fee has declined from more than 95% in the 1980s until the 1990s to less than 40% around 2005 (Frick 2007). This is probably caused by the fact that for a player who wants to change clubs after his contract has expired, no transfer fee has to be paid. However in practice the football club who bought the player pays a 'signing bonus' to the player that is comparable with transfer fees that are being paid for observationally similar players still under contract at the time they move from one club to another (Frick 2007). Another finding probably related to the Bosman Case is that average contract length has increased by about 6 months (an increase of 20%) after 1995/1996 (post-Bosman period). In the pre-Bosman era contract duration was, on average 2.5 years while it is now something around 3 years. These two findings can be explained by analyzing the causal relationship. When football players with an expired contract can leave the clubs without compensation in terms of a transfer fee, football clubs tend to increase contract duration in order to rely on a longer availability of the players and to scare away other clubs as potential buyers.

## Transfer policies

Consider the transfer system as a market with supply and demand of football players, guided by regulations, such as the Bosman Ruling, to enhance fair competition. For football clubs this is the place to improve their organization either in a sportive or financial way. In fact, the spending on the transfer market can be seen as a total strategy pursued by the football club. Of course, football clubs differ in the way they act on the transfer market by buying and selling of football players. This can best be illustrated by using examples of different contrary transfer policies of football clubs. In this case transfer policies of both Arsenal and Manchester City have been analyzed to make a useful comparison for football clubs in the Premier League. Also two clubs have been analyzed representing the second biggest league in terms of revenue, namely Borussia Dortmund and Bayern München. For this comparison data are used from the website [www.transfermarkt.co.uk](http://www.transfermarkt.co.uk) (Transfermarkt.co.uk 2012). This website contains a large database of economic and financial data regarding the football market. Figure 3.4 gives an overview of important characteristics of different transfer policies of the four European football clubs during the period 2007-2012.

2007 - 2012	Arsenal 	Manchester City 	Borussia Dortmund 	Bayern München 
Average age of football player (only players with paid transfer fee) <i>in years</i>	22,52	24,48	23,67	24,34
Average transfer fee per player (only players with paid transfer fee) <i>in million pounds (£)</i>	7,06	13,00	2,30	10,55
Experience of squad (total Premier League/Bundesliga appearances) <i>number of matches</i>	1972	3443	2280	2810
Transfer balance sheet (transfer revenue – transfer costs) <i>in million pounds (£)</i>	+ 45	- 462	- 6	- 142
Purchase price squad <i>in million pounds (£)</i>	117	346	35	147
Total market value of squad (2012) <i>in million pounds (£)</i>	265	410	170	315
Value creation of squad (Market value – purchase price) <i>in million pounds (£) and %</i>	148 ( $\Delta 126\%$ )	64 ( $\Delta 18\%$ )	135 ( $\Delta 386\%$ )	168 ( $\Delta 114\%$ )
Number of talents (under age of 23) with a market value of > 5 million (Premier League) or > 2.5 million (Bundesliga)	4	2	3	3
Transfer efficiency (purchase price squad / points in competition 2012) <i>in million pounds (£)</i>	1,71	3,90	0,44	2,01

Figure 3.4: Transfer policy comparison (source:(Transfermarkt.co.uk 2012) edited by author))

According to figure 3.4 a couple of important characteristics of different transfer policies can be identified. Figure 3.4 consists of two parts, the comparison on the one hand between Arsenal and Manchester City and on the other hand Borussia Dortmund compared to Bayern Munich. The first two rows of the figure are based on data about transferred players towards the mentioned football clubs for which a transfer fee is paid. Football players that are transferred without a transfer fee or on loan from another football club are not included. Football clubs in England have in general a larger amount of football players under contract compared to other big European leagues. In the Premier League it is common to hire and loan out a lot of young players (below the age of 23) to other Premier League clubs or First Division clubs to get experience. These "transfers" are, like mentioned before, thus not included in the calculation of average age and average transfer fee in figure 3.4. The average age of a

transferred football player, the first variable in the figure, is an indicator about the preference of the football clubs for investments in young players. Arsenal and Borussia Dortmund seem to have a preference for younger football players compared to their domestic competitors. In the six seasons between 2007 and 2012, Arsenal bought, on average, players that are around two years younger than the players bought by Manchester City. This considerable age difference seems not to be present in the comparison of Borussia Dortmund and Bayern München, although, Borussia Dortmund seems to have changed the transfer policy in 2008 by rejuvenating the squad instead of buying quite some players aged above thirty. When only taking into account the four most recent seasons (2008-2011), Borussia Dortmund bought on average players with an age of 22. Contrasting, in none of the six seasons Bayern München achieved an average age of bought football players below 22. These age differences are related with the average transfer fee paid by these clubs. Manchester City and Bayern Munich invested in somewhat older football players and therefore paid a higher price for their football players (above ten million pounds per player). Because Bayern Munich and Manchester City have invested in relative older and thus more experienced football players the previous six seasons, their total experience expressed in total domestic competition matches played by the squad is high. For example, Manchester City's squad have appeared in 3443 Premier League matches while Arsenal's players appeared in 1972 matches all together.

Furthermore, Arsenal was able to produce a positive balance sheet and Borussia Dortmund reported a minimal loss over the last six years, while Bayern Munich and especially Manchester City have spent huge amounts compared with their transfer earnings which resulted in a sizable negative transfer balance sheet. Another notable trend is referred to as the value creation of the squad. In % expressed, both Borussia Dortmund and Arsenal were able to realize a relative higher market value out of their purchased squad compared to English competitor Manchester City and German competitor Bayern Munich. Probably this is related to the fact that Borussia Dortmund and Arsenal invested in young talents scouted from other clubs or maybe in young players from their own youth academy that possibly increased more in market value than the relative more experienced players bought by Manchester City and Bayern Munich. Manchester City invested approximately three times the amount Arsenal invested in their squad, but looking at the future, Arsenal's future seems brighter than City's with respect to young talented players. Arsenal has four talents worth more than five million pounds in their squad (Wilshere, Szczesny, Ramsey and Oxlade-Chamberlain) compared to Balotelli and Savic from Manchester City. Finally, transfer efficiency is mentioned in figure 3.4. In fact, these numbers explain how much invested money in football players is needed to generate one point in the domestic competition, respectively the Premier League and the Bundesliga. Again, both Arsenal and Borussia Dortmund notated better figures than Bayern Munich and Manchester City. Arsenal and Borussia Dortmund were more efficient and therefore each point earned by their team was less expensive than their domestic competitors. In addition, it is useful to ask the question why these clubs differ in terms of expenses on football players. In general the transfer policy seems to be related with the overall strategy pursued by a football club. Bayern Munich and especially Manchester City are aiming on the short term with the investment in relatively more experienced players with often a direct impact on the first team. A reason to partly explain the differences in behaviour are based on the club's budget. Borussia Dortmund has a relative lower budget than Bayern Munich, this budget constrains expenditure and probably therefore Borussia Dortmund have to invest in less expensive players or players from the youth academy and hope to sell those players in the future with profit. After winning the domestic competition twice (2011 and 2012), Borussia Dortmund still invests in very young players

and that is why the investment in youngsters seems to be a new strategic direction for Borussia Dortmund. However, Arsenal seems to be a slightly different case. Arsenal is ranked fifth in the Deloitte Football Money League in terms of revenue generation (Deloitte 2012). The London football clubs prove that its transfer policy is based on long-term strategy and a voluntary choice instead of a forced choice. Investing in young talented football players and keeping an eye on financial results as well is a philosophy shared by management and technical coaches.

Based on conclusions made according to figure 3.4 one could consider different strategies of buying and selling football players. An innovative strategy could be developed by scouting and buying players at a young age to refresh the football squad of the club, such as Borussia Dortmund and Arsenal do. In this way a sustainable policy is focussed on young talented players with hopefully a good looking future. When a football player is sold to another team his successor is already under contract at the football club. Another benefit of this type of transfer policy is in the financial area. When scouting on relative young aged players and identifying their talent, their transfer fees will be relatively low. When these players turn out to be useful football players for in the first team selection of the football club and thus live up to the expectations, they could be sold in the future with a significant profit. Another advantage is the level of risk the football organization is taking with this way of managing football players. When a football player does not live up to the expectations, his low transfer fee paid would not concern the financial managers of the club that much.

However, this strategy does not align very well with the short term, because these kind of football players should get time to develop and settle down at their new club. Acquiring these kind of football players leaves a lot of doubt, of course dependent on the performance of the scouting department, which has to make an estimation of the performance level of the player at his new football club. The low risk strategy similar to the transfer policy of both Manchester City and Bayern Munich is to spend on well established players who have a certain good reputation and those players who have a higher chance of fitting in. The football player has already experience and knows what is asked on a certain level of football. Furthermore, the football player will be in a period in his career when he should perform at his best. The risk of failure seems low, but the transfer fee paid is very high and this means that if the player is ultimately not good enough and quickly decreases his reputation, the football club will have a large financial problem. Dependable on the age of the football player, it is not sure that the football organization will sell the player with a profit, because the level of progress in performance may be declined since it is an established mid-aged football player. However, the last transfer policy seems to be the only approach to achieve major success in a competition the coming months or years, and therefore is implemented by nearly all football clubs. If a football club has difficulties during the season this strategy will possibly be pursued by a lot of football clubs to realize a turnaround. By recruiting experienced football players with direct sportive impact on the performance level of the first team. The two contrary transfer policies are clarified in figure 3.4b. This figure explains the important differences and characteristics of both, mentioned by the figure, an innovative strategy and a reactive strategy.

Both policies have their pros and cons, and probably clubs will try to find an ideal mix between those two to assure a high level of performance of the football squad and maybe also regarding their financial position. An innovation strategy seems to be, compared to a reactive strategy, the best way to try to please both the organization's sportive and financial stakeholders. Transfer efficiency will be high as a consequence of an innovative strategy, which implies relative low investment costs per point

earned in the competition. Furthermore, on the long term, those clubs pursuing an innovative strategy towards their transfer policy are able to achieve a positive transfer balance, while reactive clubs probably will make losses regarding their transfer activities.

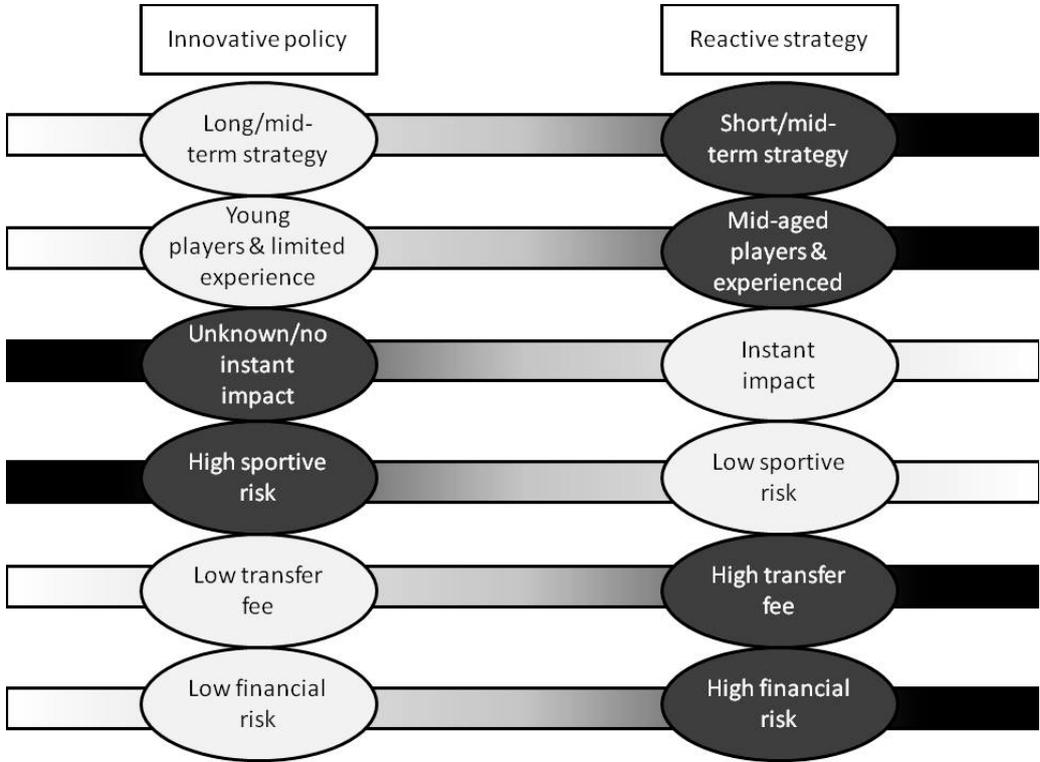


Figure 3.4b: Innovative transfer policy versus a reactive policy (source: author)

Migration of football players

Though, organization such as the UEFA and FIFA should take into account the following consequences of the transfer system nowadays. Both consequences can be described as migration flows and are probably partly caused by changes in the market system such as the Bosman Ruling. First, note the intra Europe migration flow, indicated by the arrow named A in figure 3.4c. Increasing competitiveness within and between football leagues in Europe results in foot drain of player talent towards the main leagues. Through the MCMMG model the 'big five' football leagues in England, Spain, Germany, Italy and France generate high turnovers from television broadcasting deals. Smaller but historical successful leagues such as in Belgium, The Netherlands, Portugal and Scotland have a comparative disadvantage, because total turnover of the leagues amounts only €1.17 billion compared to €7.7 billion represented by the Big 5 European Leagues (Deloitte 2011). Professional clubs from the Big 5 leagues are market leaders that have the greatest market power based on turnover and attract the world's best players in a win maximizing environment. Clubs in the 'big five' league can afford to pay high wages and are therefore very attractive for players under contract in so called stepping stone leagues. Football leagues like in Belgium, The Netherlands, Portugal and Scotland moved gradually towards an inferior position in Europe, and transformed themselves to stepping stone leagues where player talents are educated and sold to teams of the major leagues. However, figure 3.4c implies that there is only a migration of transfer players between stepping stone leagues and 'big five' leagues in Europe. Of course intra stepping stone migration or intra 'big five' league migration also takes place. For example, a lot of football players migrate between France and England, because average monthly

wage in the English Premier League was €145.000 in 2007, which was three times higher than in the first French league. An important implication for migration of football players is of course the height of the wages paid in a country.

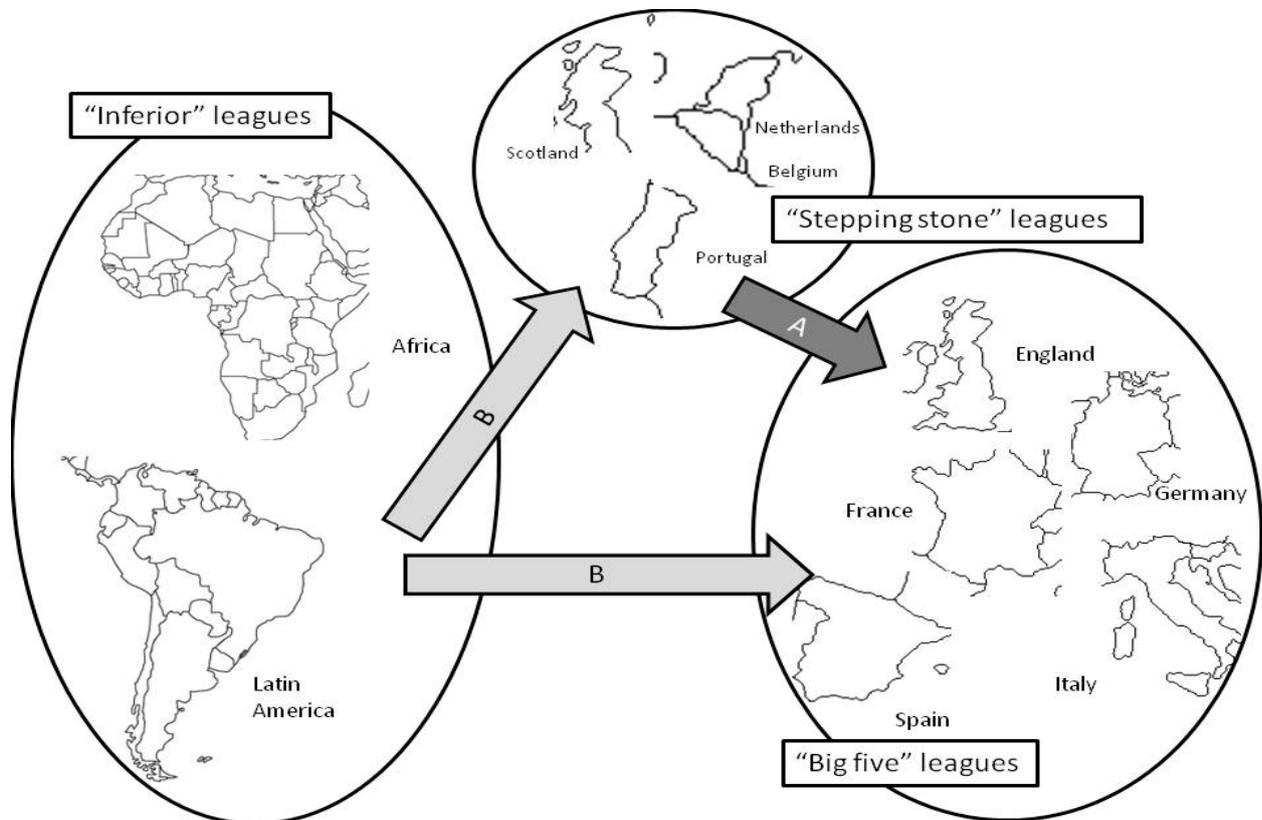


Figure 3.4c: Migration flow of football players (source: (Dejonghe and Van Opstal 2008), edited by author)

For African or Latin America football players the incentive to leave their current clubs because of higher wages in Europe, is probably stronger than for players in the stepping stone leagues. This concept referred to as 'feet drain' is just like the intra Europe flow caused by the enormous wage gap between the football leagues in developing countries and developed countries. West-European wages are extremely appealing, even if paid below average, to any Latin American or African player. Another determinant that developing countries are confronted with is economic underdevelopment. Therefore, for a football player, moving to the North means that he will find better training conditions, better technologies in sport equipment and medical care, better expectations to win at a high level and more competitive football players to compete within. The transferred football player will often have access to a better standard of living and purchasing power in developed market economies (Andreff 2009).

From a African or Latin America perspective it seems understandable to migrate towards Europe, but what is the motive behind the migration of the football player from a European point of view? As a consequence of the Bosman Case many football clubs increasingly looked for a substitute to more mobile European superstar players by recruiting younger and cheaper talents from the Third World. It has created a world unregulated labour market for young and very young talented football players. For example, football clubs in stepping stone leagues saw their talented players leave to better competitions in Europa ('big five' leagues) and found a solution by buying players from Africa and

Latin America. The intention of such football clubs is to buy a number of for example African football players and select the best players out of this group who are supposed to be transferred for high transfer fees. It seems, from scattered data, that European professional football clubs enrolling Latin American and African players in their squads were well-off in terms of both their gate receipts and their rankings in the various European professional championships. A talented young player from Africa or Latin America is relatively cheap and can be sold again, after a while, at a higher price on the European labour market by the importing club to another (Andreff 2009). Another reason for the transfers of young African and Latin-American football players to English clubs concerns the Premier Academy League. The Premier Academy League is the top level of youth football in England and a lot of foreign players have to start in this league in order to accomplish to be a member of the first team squad of the football club. Due to the fact that foreign players have a different culture, skills and mentality they raise the overall standards of performance in training and in matches (Elliott and Weedon 2011). Young English football players have the attitude that they want to be a professional football players in the future while a Latin-American or African player migrated towards Europe because he has to be a professional football player. The latter therefore has a higher work ethic and these players are technically better than English young players, largely because the English youth leagues are aimed on physics and tactics (Elliott and Weedon 2011). In sum, this South to North migration flow of young football players can be clarified by their low costs relative to their European colleges and their different features and skills regarding football.

Due to the lack of compensation for transferred players in mainly the South-Europe migration stream, professional clubs and leagues in under developing countries remain poor and are unable to keep their best players or to get a reasonably transfer fee for them in the global market of football talent. Another negative aspects is that some European clubs threat those large groups of young African and Latin American players in a non-ethical way by giving a large part of migrated players no labour contract and returning them to their domestic country when trial were unsuccessful. These are the downsides of transfer policies pursued in Europe. Especially, professional football clubs pursuing an innovative strategy focused on youngsters should concentrated on a ethical responsible way of recruiting talent.

### **3.5 Stakeholder evaluation**

In chapter 3 the football environment in practice is discussed by analyzing the new revenue MCMMG-model applied by a lot of clubs, the overspending issue and the different policies aimed at the transfer market. The MCMMG-model involves five stakeholders as revenue sources for professional football clubs. Revenue generated from fans form the majority including gate receipts and merchandise revenue. Furthermore, large revenue streams can be indentified from sponsors and media. Another stakeholder that is a source of potential revenue are the organizing bodies, from which clubs will receive high payments when they progress in important leagues and competitions. Football clubs also receive income from other stakeholders such as shareholders. Shareholders could be small anonymous buyers of a couple of shares or large investors in the football club. Both provide income for the management of the club to spend, but large investors can create a turnaround at a clubs such as in the case of Manchester City. However, stakeholder theory does not assume an one sided relationship between organisation and stakeholder but an relationship with mutual benefits implying that a football club has to give something in return. This issue is discussed in the theory part

where stakeholders were putting pressure on the football organization to perform in a sportive or financial way. In the practice part of this thesis the question had to be answered if this is really the case. Are football clubs aware of duality in needs of stakeholders they have to please? More important, do they respond to this needs in a sufficient way? Figure 3.5 implies that nowadays in general there exists an unequal balance of attention between on the one hand "sportive" stakeholders and on the other hand "financial" stakeholders.

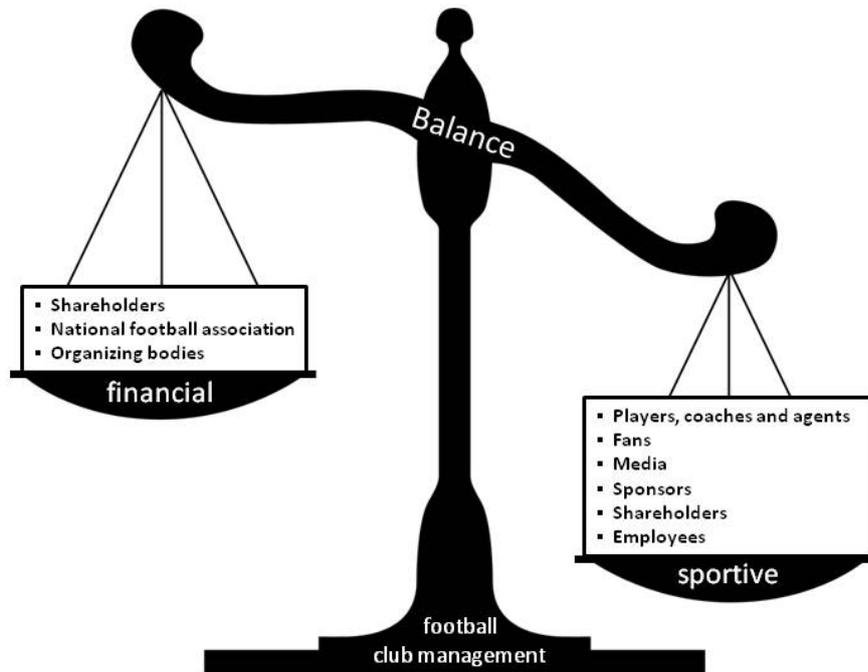


Figure 3.5: Balance financial vs. sportive (source: author)

Of course this the result of the win maximizing environment European football clubs are in. A large part of the stakeholders from which a club generates high revenues have sportive needs to be fulfilled, such as the media, sponsors, players and especially fans. Those stakeholders can only be pleased by overinvestment in the playing squad which will hopefully lead to the desired sportive performance. Higher wages and the recruitment of new players are two ways used by clubs to achieve sportive success, according to section 3.3. In section 3.4, the transfer policy applied by almost all European top team in the 'big five' league, was discussed. This reactive policy concentrates on the buying of mid-aged players instead of scouting for youngsters. Which ultimately leads to negative transfer balances and high financial risks, something shareholders aimed at financial benefit, the national football association and organizing bodies such as the UEFA and the FIFA are not pleased with. In conclusion, management of football clubs tend to prefer sportive performance over financial control. During the past decades this kind of strategy remained unpunished, however this could change in the future. As from 2013, the UEFA wants to implement financial fair play in the football industry, a win maximizing environment.

## ④ Financial Fair Play and other financial policies

### 4.1 Introduction

The preference of football clubs to please stakeholders with a sportive stake makes stakeholders with a financial interest to confront the football clubs with their unsatisfied objectives. Shareholders aimed at financial benefit, the national football association and especially the UEFA and FIFA have a critical view on the way a football club is managed. Those organizations aim to promote fair competition in their leagues and competitions based on financial stability. The UEFA and FIFA both have the power to implement regulations to maintain or enhance this fair competition between clubs. Novel financial rules could balance revenues and expenses more equally and make football clubs aware of their financial responsibility as a football club and over the long term as football sector. In this chapter the objectives and set of rules of Financial Fair Play, a regulatory mechanism initiated by the UEFA to achieve a more healthier financial situation in football, will be discussed. Furthermore, other principles are addressed to reduce the lack of financial control in European football. Alternatively, solutions for financial troubles of a club can come from inside the football club and can be implemented in the transfer policy or strategy towards youth development. These rules set by clubs management itself differ from the regulations for clubs from the external environment, such as the UEFA or national football association. Both external and internal perspectives will be addressed in this chapter.

### 4.2 Financial Fair Play

#### Objectives

"Financial fair play in this context manifests itself as a regulatory mechanism that attempts to wipe out this starting point disparity, imposing a cap on spending and avoiding anyone splashing out extravagantly. The advantages of this system are greater long-term financial stability, less debt and a greater attention paid to the managing of the breeding grounds. The price that will have to be paid for these advantages will be in terms of the entertainment, for we will no longer see "star-studded" teams." (Marino 2010)

Financial fair play should be the solution for the lack of attention paid by management of professional football clubs to stakeholders with financial objectives. But most of all for the club itself. In 2010 and 2011 lots of English clubs (mostly in lower divisions) suffered from insolvency events and other football clubs experienced large relapses because of highly irresponsible financial behaviour. Football clubs like Leeds United and Portsmouth are examples of this trend.

According to the UEFA the following is what they want to achieve by implementing the Financial Fair Play regulations; introduction of more discipline and rationality in club football finances which hopefully will result in a decrease in pressure on wages and transfer fees and limit the inflationary effect. Furthermore, the UEFA wants to encourage clubs to compete with(in) their revenues and to make long-term investments in the youth sector and infrastructure. Furthermore, their aim is to ensure clubs to settle their liabilities on a timely basis by paying other clubs on time regarding transfers and loan contracts. As a general objective, the UEFA wants to protect the long-term viability

of European club football and thus try to accomplish a more healthier financial situation in European football (UEFA, 2012).

#### Break-even requirement

In order to reach a situation in which European football clubs are financial healthy, certain rules should be implemented to restrain football clubs for spending too much. UEFA's Financial Fair Play policy focuses specifically on the break-even requirement for all licensees that have qualified for a UEFA club competition. The break-even requirement is all about the deficit or surplus of a football club as a result of extracting relevant expenses from relevant income. Relevant income is income from football related operations such as gate receipts, broadcasting rights, sponsorship, commercial activities and other operating income, plus profit on disposal of player registrations, excess proceeds on disposal of tangible fixed assets and finance income (UEFA 2010). Relevant income should be compared with relevant expenses, which include cost of sales, employee benefits expenses and other operating expenses, plus either amortisation or costs of acquiring player registrations, finance costs and dividends (UEFA 2010). Certain types of costs however, are not included in the calculation of relevant expenses for the break-even requirement. The primary costs the UEFA does not consider as relevant expenses are expenditure on youth developments activities, expenditure on community development activities, tax expenses and certain expenses from non-football operations.

In order to calculate the break-even result relevant expenses should be subtracted from relevant expenses. If a licensee's relevant expenses are less than relevant income for a financial reporting period, a break-even surplus is created, while otherwise the club has a break-even deficit. The aggregate break-even result is the sum of the break-even results of each reporting period covered by the monitoring period (UEFA 2010). The monitoring period covers three reporting periods, for example the monitoring period assessed in season 2014/15 covers reporting periods 2013/14, 2012/13 and 2011/12. Because reporting period 2011/12 is the first reporting period in the Financial Fair Play system the monitoring period 2013/14 covers only two reporting periods, i.e. 2012/13 and 2011/12

In general according to the UEFA clubs acceptable maximum aggregate break-even deficit over a monitoring period is EUR 5 million. There is a possibility to exceed this 5 million level up to the following amounts notated in table 4.1, only if such excess is entirely covered by contributions from equity participants and/or related parties. Contributions from equity participants are payments for shares through the share capital or share premium reserve accounts. That is, investing in equity instruments in their capacity as shareholder (UEFA 2010). Contributions from a related party include capital contributions, such as unconditional gifts and income transactions from a related party (UEFA 2010). More examples of related party transactions are sales of sponsorship rights by a clubs to a related party, sales of corporate hospitality tickets, and/or use of an executive box by a club to a related party (UEFA 2010). According to table 4.2a the allowed aggregate break-even deficit decreases during coming years, implying that capital contributions and income transactions from a related party and contributions from equity participants should cover a smaller and smaller amount over time. On the long-term the UEFA strives towards a financial situation in which all football clubs should break-even.

<b>Monitoring period</b>	2013/14 and 2014/15	2015/16, 2016/17 and 2017/18	After 2018
<b>Included reporting periods</b>	2 or 3 reporting periods	3 reporting periods	3 reporting periods
<b>Allowed aggregate break-even deficit</b>	45 € million	30 € million	Lower than previous monitoring periods

*Table 4.2a: Allowed aggregate break-even deficit if covered by contribution from equity participants and/or related parties (source: (UEFA 2010), edited by author)*

The Club Financial Control Panel, the organization that governs the club monitoring process, could ask the licensee to prepare and submit additional information at any time regarding the annual financial statement of a club. Points of concern in a financial statement are the employee benefits expenses exceed 70% of total revenue or net debt excess exceeds 100% of total revenue of a football club. These are critical indicators identified by the UEFA for a financial unhealthy situation. In addition, the UEFA also wants the licensee to prove that it has no overdue payables towards other football clubs as a result of transfer activities (UEFA 2010). Likewise, a football clubs must have no overdue payables towards employees and/or social/tax authorities.

In order maintain credibility the UEFA should sanction football clubs that do not fulfil the Financial Fair Play rules. If the Club Financial Control Panel thinks this is the case they can inform to the UEFA Organs for Administration of Justice with the ultimate sanction being a ban from UEFA competitions. Different sanctions the UEFA could pursue are a warning, a fine, disqualification from competitions in progress and/or exclusion from future competitions or withdrawal of a license (Geey 2011).

#### Preparing for Financial Fair Play

The break-even requirement is a key point in the Financial Fair Play rules set by the UEFA. UEFA Club Licensing Benchmarking report investigated if football clubs already apply to the break-even requirement. In figure 4.2b an overview is made of 225 football clubs that have qualified for the Champions League or Europa League in 2011/12, and they are clustered in terms of break-even result during financial years 2008, 2009 and 2010 (UEFA 2010). A significant part of those clubs are exempted from the break-even requirement because their income and expenses remain below €5 million. Only 16% of the total qualified clubs could have problems with the break-even requirement would it be monitored during the 2011/2012 season. 13% of the clubs need this excess up to €45 million covered by contributions from equity participants and/or related parties, while 3%, which represents 6 clubs could be sanctioned by the UEFA because of their too high break-even deficit. However, these clubs have still two years to change their financial situation in order to fulfil the break-even requirement when its implemented in 2013/14.



Figure 4.2b: Break-even result of financial years 2008, 2009 and 2010 of clubs (225) qualified for the Champions or Europa League during 2011/2012 season (source: (UEFA 2010), edited by author))

### 4.3 Wages/revenue ratio

Both Deloitte (Deloitte 2011) and UEFA (UEFA 2010) have recognized the potential financial danger when a large part of the generated revenues is spent on wages of the football players. These organisation suggest a warning level of 70%, which implies that not more than 70% of the revenue should be spent on wages. During 2009/10 football season more than two thirds of the Premier League and Championship clubs reported a wages/revenue ratio higher than 70% (Deloitte 2011). Almost 90% of these clubs with a wages/revenue ratio of above 70%, reported an operating loss. Football clubs that had a wages/revenue ratio of below 70% (almost one third of the Premier League and Championship clubs) 92% made either an operating profit or an operating loss of no greater than £1 million (Deloitte 2011). These figures shows the casual relationship between operating losses and a high wages/revenue ratio. Clubs with ratios higher than 70% could be subject to additional monitoring by the UEFA according to the Financial Fair Play regulations. Although football clubs should know by now that making a operating profit with wages/revenue ratios higher than 70% and maybe approaching the 100% is hardly impossible.

### 4.4 Balanced revenue model

In line with section 3.2 the generated total revenue is commonly split up in match day revenue, broadcasting revenue and commercial revenue. These three sources of revenue are not always equally divided. Especially Italian top clubs rely for a large part on one revenue source, namely broadcasting revenue. However, it is desirable for clubs to have a balanced revenue model, whereby each revenue source contributes to total revenue a relatively equal share. This ensures that clubs diversify risk, reducing the potential impact of factors not wholly under the business' control such as weaker on-pitch performance or adverse conditions in the broadcast or sponsorship market (Deloitte 2011). A football club such as Arsenal which relies to a high extend, over 40% (Deloitte 2012), on match day revenue, could underperform in the competition and European cups and therefore loses large sums of money. Italian clubs generate revenues largely from broadcasting deals because they marketed their own rights. Internazionale is an illustrating example with 58% of total revenue generated from broadcasting rights (Deloitte 2012). Internazionale's revenue model during season 2010/11 with over-reliance on broadcasting right is pictured in figure 4.4.

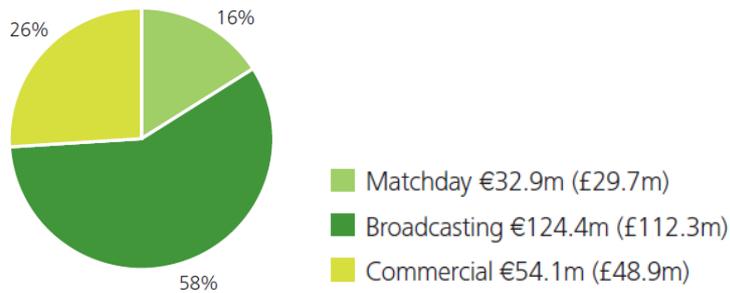


Figure 4.4: Revenue model Internazionale during 2010/11 season (source: (Deloitte 2012), edited by author)

From season 2010/11 onwards, broadcasting right will be divided based on collective selling, it is therefore critical for Italian clubs to focus on other revenue streams, such as match day and commercial revenue, to keep up with their European peers (Deloitte 2011).

#### 4.5 Innovative transfer policy

Another way to enhance the financial situation is reducing overspending on the transfer market. The innovative transfer policy seems to be the only successful way to satisfy both the sportive and financial stakeholders as the transfer efficiency, which implies transfer fee paid divided by points gained in competition, is better compared to a reactive policy. Furthermore, financial risks are quite low as the policy is aimed at scouting young football players which will cost significantly lower than mid-aged players with already lots of experience on high performance level. However, there exists a sportive risk of failure when the player does not live up to the expectations in the first team of the club. Therefore, proper supervision during the development phase of young player is needed to prepare him gradually for appearances in first team. A well designed innovative transfer policy should align different waves of talents to each other to make sure when established players are sold or experiencing downward slope in their performance a new talent from the youth academy is there to take his place. Probably the best aspect of this policy is the high value creation of players. Because most of them are bought at relatively low costs, they could experience a high increase in value due to their young ages, and could therefore be sold with lots of profit.

#### 4.6 Fit between financial fair play and innovative transfer policy

The financial policies addressed in this thesis differ in whether they are initiated internally or externally. The financial fair play regulations are initiated by the UEFA, a stakeholder from the external environment, while an innovative transfer policy is kind of player recruiting philosophy initiated from within the football club. Both policies turn out to fit together in terms of their financial structure. Hence, the UEFA makes a distinction between relevant and irrelevant expenses for the financial fair play regulations. When a football club uses an innovative transfer policy, the club has probably high expenses with respect to its football education programme, medical support for youth players and costs of materials and services used for youth development activities. The financial fair play regulations of the UEFA exclude these expenses from the calculation of the break-even requirement to support the long-term strategies of football clubs (UEFA 2010). All expenditure that is directly attributable to activities to train, educate and develop youth players is allowed to exclude

from the break-even requirement because the aim of the UEFA is to encourage investment and expenditure on facilities for the long-term benefit of the club (UEFA 2010). Although, scouting costs and fees paid to obtain a youth player from another club are considered as relevant expenses and are thus included in the break-even calculation. In conclusion, the UEFA financial fair play regulations promote investment in the development of youth players by not sanctioning clubs for additional losses caused by this expenditure. This aspect of financial fair play does not mean that football clubs should create losses by overspending in youth development activities, because the UEFA does not take this into account. Still the best way is to realize the innovative transfer policy is by investing up to the amount generated by total revenues. The UEFA is just lenient for football clubs who invest in the future of the sport by having a long-term vision that is shared by the UEFA.

#### **4.7 Reaction of clubs**

It is not that easy to analyze football clubs behaviour according to the above mentioned regulations. But one could take into account different levels of spending on the transfer market. Money spent on transfer fees is an important measure for Financial Fair Play as it increases the relevant costs and worsens the break-even result of a club. Probably high spending also leads to a high wages/revenue ratio dependable on the number of players a club sold in return during the transfer window. The 2012 January transfer spending will be analyzed because the 2012 January transfer window is the most recent opportunity for clubs to buy players and this transfer period is included in the reporting period of the Financial Fair Play regulations of the UEFA. First, consider the five biggest spending competitions; Premier League, Ligue 1, Bundesliga, Seria A and La Liga, to which can be referred as the 'big five' leagues in Europe. All these leagues, with the exception of France, have reduced their January spending in 2012 compared to previous years. In England, the Premier League clubs spent around €70 million in the January transfer window, according to Deloitte (Deloitte 2012). This means a more than 70% reduction in comparison with 2011, when total transfer spending in England equalled €270 million. The 70 million spent in January 2012 is back to a similar level as the January windows in 2004 to 2007 (Deloitte 2012). In figure 4.7 the Premier League clubs' gross transfer spending is presented for different transfer periods. The Premier League clubs also reduced spending for individual players as no single player acquisitions were made for more than 17,5 million, compared to six such transfers in January 2011 (Deloitte 2012). Only in France, the transfer spending increased dramatically, to a large extent caused by Paris Saint-Germain. The football club from Paris was the third biggest spender in Europe, with their Qatari ownership willing to invest vast sums in the team (Coerts 2012).



Note: The figures represent the aggregate of reported transfer fees committed in respect of player registrations in the January and summer transfer windows by Premier League clubs.  
 Source: Deloitte

Figure 4.7: Premier League clubs' gross transfer spending by transfer window from 2003 to 2012 (in Euros) (source:(Deloitte 2012))

Dan Jones, Partner in Sports Business Group at Deloitte, commented: "The focus on football's future financial sustainability is more prevalent in Europe than at any time in the past 20 years and, going forward we remain keen to see that translated into a better balance between revenue and expenditure." The European football market is in anticipation for the transfer spending during the summer transfer window 2012, to determine if this January window is a incidental low transfer spending window or if clubs actually are responding to the regulations set by the UEFA and are heading towards financial sustainability.

## ⑤ Conclusion and discussion

### 5.1 Conclusion

Football clubs should consider many different stakeholders in order to achieve certain objectives. More specifically, a football club has to focus on so-called 'key players', stakeholders with high power and a high level of interest. These stakeholders have both a sportive and a financial 'stake' in the football club. Football clubs nowadays tend to satisfy the former group consisting of fans, players and coaches, media and shareholders by overinvesting on player wages and transfer fees. This results in financial losses and unhealthy financial situations faced by major European clubs. Meanwhile, the football landscape is changing. The UEFA wants to create fair competition through financial regulations. These regulation align with the reasoning that the financial needs of stakeholders should also be satisfied by football clubs. In addition, football clubs should also understand by themselves that financial consistency is needed in order to create a bright future for the most popular sport worldwide. Therefore, this thesis addressed actions to be taken by clubs internally or regulations externally set by stakeholders. The break-even requirement is a regulation that stimulates football clubs on the long term to stop spending more money than earned by the club. Furthermore, a football club should try to reduce the wages/revenue ratio as that is often an indication of potential financial difficulties. Another way to reduce the chance facing such difficulties and to satisfy financial stakeholders is by aiming to generate revenue from equally sized revenue sources to spread future risk. Finally, action taken on the transfer market is often an indicator of either sportive or financial improvements. By developing a innovative transfer policy instead of reactive transfer policy clubs should reduce financial risk and improve transfer efficiency. It will take several years before conclusions can be made regarding football clubs responsive behaviour to financial regulations such as the UEFA's Financial Fair Play rules, which will be monitored for the first time in season 2013/2014. This depends also on the monitoring performance of the UEFA and the consistency in sanctioning infringements. The January transfer window gave a hopeful indication as football clubs in the 'big five' leagues were able to drastically reduce transfer spending.

### 5.2 Discussion

#### Limitations

This thesis is devoted to the 'big five' European football leagues. Throughout the whole thesis examples are used particularly from the English Premier League and the Spanish Primera Division. This results are generalized to the other three European football leagues and in a lesser extent to all the other smaller football competitions in Europe. However, this generalization might not be appropriate because of different factors playing a role in different European football leagues. Financial situations in the Spanish Primera Division could be totally different from the situation in other leagues and are therefore maybe not comparable.

#### Further research

In this field more quantitative and qualitative research is needed. This thesis does not include results from qualitative interviews and is solely based on literature results, while interviews could be interesting for research purposes. Conducting interviews with a large group of European football

managers could give more insight in the specific importance of stakeholders and the different issues managers face during the process of running a football club. Another way to research the relation between sportive and financial objectives of a football club is by quantitative research. In this thesis figures are used from databases with data about transfer spending, league position and other financial and performance related information. However, this has to be up scaled in order to come up with quite some significant result. Instead of using data of two European clubs or one football competition, figures could be analyzed for all European football clubs to get a better insight in which clubs are performing well and which clubs tend to underperform dependent on their budget and success on the pitch.

An important aspect of this thesis involves UEFA's financial fair play regulations. The first monitoring period of these regulations starts in 2013/2014 and research is required to investigate if these regulations have influenced the behaviour of the management of football clubs. In January 2012 a small indication is found that football clubs are trying to cut back their expenses, however in order to get reliable results transfer periods in the coming years should be analyzed in many European football leagues. Besides, the success rate of the UEFA's financial fair play regulations depends for a large part on the implementation and sanctioning by the UEFA. The integrity and consistency of the policies of the UEFA could be an interesting field for further research, as the UEFA is most powerful stakeholder to control and supervise football clubs in Europe.

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