



The relationship between ownership structure and club performance in the English Premier League

Ownership
structure and
performance

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Robert Wilson

*Academy of Sport and Physical Activity, Sheffield Hallam University,
Sheffield, UK, and*

Daniel Plumley and Girish Ramchandani

*SIRC, Academy of Sport and Physical Activity, Sheffield Hallam University,
Sheffield, UK*

Abstract

Purpose – The purpose of this paper is three-fold. First, to explore the relationship between the financial and sporting performance of clubs competing in the English Premier League (EPL). Second, to investigate the effect of different models of EPL club ownership on financial and league performance. Third, to review the finances of EPL clubs in the context of UEFA's Financial Fair Play regulations.

Design/methodology/approach – Financial data from annual reports for the period 2001-2010 was collected for 20 EPL clubs. Correlation analysis was conducted to examine the relationship between the finances of EPL clubs and their league position. One-way analysis of variance (ANOVA) tests were then used to examine the effect of ownership type on clubs' financial and league performances. Where the results of ANOVA testing revealed statistically significant differences between groups, these were investigated further using appropriate post hoc procedures.

Findings – The stock market model of ownership returned better financial health relative to privately owned (domestic and foreign) clubs. However, clubs owned privately by foreign investors or on the stock market performed better in the league in comparison with domestically owned clubs. The stock market model was more likely to comply with Financial Fair Play regulations.

Originality/value – The paper confirms empirically that football clubs that float on the stock market are in better financial health and that clubs in pursuit of short-term sporting excellence are reliant on substantial investment, in this case from foreign investors.

Keywords Football finance, Football ownership models, English Premier League, Profit maximization, Utility maximization, Football, Sports

Paper type Research paper

Introduction

The relationship between ownership structure and business performance has been examined extensively in corporate finance literature. Ownership structure is considered an important tool for corporate governance to resolve any conflict of interests between shareholders and managers (Hu and Izumida, 2008). Scholarly research identifies broadly two forms of corporate governance (Coffee, 2005, p. 200) – “a concentrated ownership system” and “a dispersed ownership system”. The former suggests a stronger monitoring power from individual investors and large-block shareholders (holding at least 5 per cent of equity ownership within the firm) over a firm's managerial decisions, because of the incentives from these owners to safeguard their investment proactively. By contrast, firms operating under a dispersed ownership



system are indicative of weaker governance power because investors with less ownership interests have little incentive to pay attention to the strategic decisions of the firm and thus, are less motivated to closely monitor and discipline top executive behaviours (FT Lexicon, 2012). However, evidence from a growing body of literature has been rather contradictory, leading to no distinct conclusions one way or another on the impact of ownership structure on the performance of the firm. Some studies have found a significant positive link between ownership and performance, but others reveal a negative or neutral one using the same performance measures or outcomes (see Gadhoun *et al.*, 2005). To our knowledge, this type of analysis has not been applied to the sport industry, specifically in relation to professional football clubs, where business objectives include financial considerations as well as success “on the pitch”. It is this gap in the extant literature that this paper attempts to address using the English Premier League (EPL) as the field of study. The relationship between the two performance dimensions of EPL clubs (i.e. financial and sporting results) under different forms of ownership is also examined. Moreover, the implications of UEFA’s imminent implementation of its Financial Fair Play (FFP) regulations are considered.

During the last five years the EPL has established itself as the largest and most profitable league in world football. Recent figures available from Deloitte (2011) reveal that the EPL’s revenue reached almost €2.5 bn in 2009/2010, which was €800 m more than its closest competitor in Europe, the German Bundesliga. Moreover, the EPL has a greater reach into the global market than any other European league and is transmitted weekly to over 200 countries. EPL broadcasting rights contracts are estimated to have driven clubs’ revenue to more than £2.2 bn in 2010/2011, with overseas rights accounting for around 40 per cent of this figure (Deloitte, 2011). Given the sheer revenue that it generates, it is not surprising that the EPL has attracted considerable outside investment. Investment has come from city institutions in the mid-1990s, from media companies around the millennium, and most recently from wealthy individual owners.

Increasingly, these wealthy individual owners come from overseas, further underlining the global appeal of the EPL. At the time of writing, nine of the 20 clubs in the EPL were owned by foreign investors. The first major occurrence of foreign investment in the EPL was Russian billionaire Roman Abramovich’s purchase of Chelsea Football Club in 2003 and investment by foreign owners in EPL clubs has become more frequent in recent years (Manchester United in 2005, Sunderland AFC, first in 2006 and again in 2009, Aston Villa in 2006, Manchester City in 2008 and Blackburn in 2010 to name a few). The fundamental issue with these acquisitions has been the apparent financial mismanagement that follows. Originally, investors were, and in some cases still are, running clubs under a “trophy asset” model which requires ongoing investment in losses and delivering returns only in the form of capital growth and changes in ownership, as competitive pressure to win outweighs any collective desire to limit costs (Deloitte, 2011). However, in light of the Glazer takeover of Manchester United in 2005 and the intention by UEFA to limit financial mismanagement through FFP, it is quite possible that there could be a return to the days where football clubs operated as profit maximising entities.

The rest of the paper is structured in the following order. First, the economic theory of professional team sports is considered with reference to concepts of profit maximisation and utility maximisation. We then focus specifically on the EPL and the ownership models prevalent in modern day English football before describing the

methodology employed in this research. Thereafter, the findings of the research are presented and discussed.

The economic theory of professional sports leagues

The theoretical literature on the determinants of the degree of competitive inequality in sports leagues was developed by sports economists in the USA, with North American team sports primarily in mind. Naturally, the development of this literature has led to comparisons between the North American and European models (see Hoehn and Szymanski, 1999; Andreff and Staudohar, 2000; Szymanski, 2003). The European model is and will remain unique, but there appears to be convergence on certain features (Affre and Staudohar, 2000). In both Europe and the USA, sports leagues are joint ventures that can be viewed as a single entity or cartel. Clubs are separately owned with discretion to set prices, market the games and adopt strategies to compete with other clubs. There are, however, several key differences between the two models, all of which ultimately impinge on factors such as revenue generation and the ability to compete. The American sports model operates a draft system where the best performing rookie is assigned to the worst performing team. Furthermore, American sports leagues operate under salary caps, share television revenue equally and compete almost exclusively in domestically structured leagues (Affre and Staudohar, 2000). In place of promotion and relegation, evident throughout the European model, changes in American leagues come from adding new franchises and relocating franchises to another city.

From this, it is reasonable to suggest that profit maximisation is the prime objective of North American leagues and team owners, with profitability being the main factor influencing decisions concerning the award of franchises and relocation (Dobson and Goddard, 2011). By contrast, the literature suggests that the European sports model is more closely related to utility or “win” maximisation (see Sloane, 1971; Kesenne, 1996, 2000; Garcia-del-Barro and Szymanski, 2006). The omission of features such as salary caps and revenue sharing in the European model arguably makes it a more attractive investment opportunity, particularly for utility maximisers whose desire for short-term sporting success is funded through the purchase of better players who command higher salaries. Contrast this with profit maximisers, clubs that have previously followed the stock market model of ownership, and it is apparent that the differences highlighted between the North American and European models are also prevalent in the behaviour of ownership types in English football.

Very few markets can be classified as perfectly competitive or as a pure monopoly (see Gratton and Taylor, 2000). The vast majority of firms do compete with other firms, often quite aggressively, and yet they are not price takers. Most markets, therefore, lie between the two extremes of monopoly and perfect competition, in the realm of “imperfect competition”. Within this, lies monopolistic competition and oligopoly. The EPL is most closely related to monopolistic competition as all clubs are essentially selling the same product, albeit at different prices. Profit maximisation and financial return on investments are not widely held to be strong motives in English football (Buraimo *et al.*, 2006) but there is certainly an argument that this may change in the future particularly in light of the Glazer takeover at Manchester United. This is arguably the only takeover so far where making a profit appears to be the main motivation of the owners and, despite the headlines surrounding the Glazer’s and the opposition they have met at Old Trafford, there seems very little cause for concern from a financial viewpoint. The club has cash reserves of £150 m – a respectable amount

even in relation to the initial £700 m debt – as long as this debt remains serviceable and the club spend within their means then further financial trouble is unlikely. The club's turnover at year end 2010 exceeded £190 m and the wages/turnover ratio was 52 per cent, well below UEFA's recommended maximum limit of 70 per cent and very close to their "threshold of excellence" at 50 per cent. New strategic business options have also been outlined at the club including future sponsorship deals and the selling of club networks worldwide. This, however, is nothing above what any investor could have implemented (be they foreign or domestic), proving that the arguments relating to the issue of ownership structure is not necessarily based on financial principles. By sharp contrast, a number of clubs in the EPL rarely consider the concept of profit maximisation. Certain investors (e.g. Roman Abramovich at Chelsea and Sheikh Mansour at Manchester City) become the club's main benefactor and the club is ultimately indebted to the individual concerned. Furthermore, during the stock market boom in professional football in the mid-1990s, the main aim of floatation was to raise capital, albeit here the clubs also had to consider making a profit for their shareholders. The benefactor model removes this consideration and allows clubs to be less concerned with financial returns and profit.

EPL clubs as revenue generators

With exponential rises in revenues and the increasing commercial appeal of the EPL in recent years it is easy to see why many people now define football as a business (see Banks, 2002). In a conventional business, one might expect the only motivation for running the business to be to make a profit (Beech, 2010). However, this very rarely occurs in English football, particularly in the EPL – only four clubs returned a gross profit in 2009/2010 and collective losses for EPL clubs totalled £484 m (Conn, 2011). Debt levels at EPL clubs have also risen alarmingly over the last ten years and despite the overall debt of EPL clubs reducing slightly for the first time since 2002/2003, net debt increased for around half of the clubs in 2009/2010 (Deloitte, 2011). When one considers that the EPL is currently the most profitable league in world football, it is clear that a paradox between revenue and costs exists. For football clubs revenue streams fall under three main headings: match-day receipts, broadcasting rights and commercial receipts (see Beech, 2010; Deloitte, 2011), whilst the biggest costs a club faces are its players and the general trend is clearly one of increasing costs, owing to the temptation to pay more to get better players.

The paradox between revenues and costs in the EPL can be analysed in relation to the changes in ownership structure at EPL clubs in recent years. During the last ten years there has been a move away from clubs floating on the stock market to becoming privately owned entities. Furthermore, this move to private ownership has primarily been towards the foreign ownership model, whilst the number of domestically owned clubs has remained fairly stable. Whilst EPL clubs' revenues continued to rise, the profitability of clubs has become notably poor, culminating in an increase in debts and losses. A move away from the stock market model of ownership, where profit maximisation is the main priority, towards private investors (most notably foreign benefactors) might explain a proportion of these losses. For example, recent losses at Chelsea and Manchester City have been attributed to spending more money on transfer fees and player salaries, funded in each instance by the club's wealthy foreign benefactor. At these particular clubs it is increasingly evident that "utility" and "win" maximisation outweighs any desire to run the club as a profitable business.

Ownership models in football

Hamil and Chadwick (2010) indicate that since the formation of the EPL in 1992 three ownership models have presented themselves, all having different motivations and measures of success: the stock market model of ownership; the supporter trust model of ownership; and, the foreign ownership model (which has become increasingly prominent since 2004). They suggest that all three models are legally binding although the type of ownership can impact on football club governance and, by definition, therefore, finance.

Through further research, it is apparent that the stock market model of ownership originated in the 1980s (Tottenham Hotspur was the first football club to float on the stock market in 1983) although the boom period really took hold in the mid-1990s following the formation of the EPL (Dobson and Goddard, 2011). Whilst the floatation by Tottenham Hotspur raised £3.3m in October 1983, indifferent results in several of the other diversified businesses over the next few years meant that floatation was considered to have been somewhat less than an unqualified success. Subsequently, it would be several years before another club floated on the stock market. Millwall raised £4.8m through floatation in October 1989, and Manchester United £6.7m in June 1991 (Dobson and Goddard, 2011). The introduction of the EPL in 1992 and the increase in the value of shares in Tottenham Hotspur and Manchester United between December 1994 and December 1996 (300 and 400 per cent, respectively) meant that circumstances were favourable for a spate of 15 further floatations between September 1995 and October 1997. Deloitte (2009) estimates that EPL clubs raised approximately £175m in total through stock market floatations. However, the listing of football clubs seems to be increasingly less attractive in modern times (see Table I).

Club	Year floated	Position at October 2008
Arsenal	1995	7,750 (£)
Aston Villa	1997	De-listed: 2006
Birmingham City	1997	27.00
Bradford City	1998	De-listed: 2002
Bolton Wanderers	1997	De-listed: 2003
Charlton Athletic	1997	De-listed: 2006
Chelsea	1996	De-listed: 2003
Leeds United	1996	De-listed: 2004
Leicester City	1997	De-listed: 2003
Manchester City	1995	De-listed: 2007
Manchester United	1991	De-listed: 2005
Millwall	1995	0.03
Newcastle United	1997	De-listed: 2007
Nottingham Forest	1997	De-listed: 2002
Preston NE	1995	117.50
QPR	1996	De-listed: 2001
Sheffield United	1997	9.75
Southampton	1997	28.00
Sunderland	1996	De-listed: 2004
Tottenham Hotspur	1993	85.00
West Bromwich Albion	1997	De-listed: 2005
Watford	2001	13.50

Note: Adapted from Hamil and Chadwick (2010)

Table I.
The listing and de-listing
of professional
football clubs

Since the turn of the century, 14 football clubs have de-listed with many experiencing a significant drop in share price due to poor returns on investment as a result of an inherent difficulty for clubs to generate profits. It appears that city institutions simply do not see football clubs as viable investment opportunities (Hamil and Chadwick, 2010).

The supporter trust model of ownership is of less relevance to this study as doubts have been raised as to whether this particular ownership model would work in the EPL, simply because of the size of the companies in comparison to lower league clubs. Indeed, Brown (2007) infers that this model of ownership has failed to demonstrate how it can work for entities the size of Manchester United where major corporate finance is needed for a meaningful stake. Consequently, the supporter trust model has been substituted here for the domestic private investor model. This model is almost an exact replica of the foreign ownership model (discussed below), albeit the investment in this case is provided by a UK-based investor who often has an emotional attachment to a particular club.

The foreign ownership model

This third ownership model is becoming increasingly prominent in the EPL (see Table II) for many reasons. As the football industry has become more commercialised, the costs required to operate a club in the EPL, taking into account the significant rise in player wages, have increased substantially. Many owners have been unable to provide the required levels of investment in order to compete and have sold their majority stake in the club to wealthy foreign investors. Moreover, as noted previously, the global appeal of the EPL and the high value of the recent broadcasting rights (approximately £2.7 bn between 2007 and 2010; Hamil and Chadwick, 2010) coupled with the opportunities for global expansion to maximise brand potential makes owning an EPL club an increasingly attractive proposition to foreign investors.

Given that: the issue of foreign ownership is a relatively new phenomenon; the fact that many EPL clubs have sought such investment to ease their financial problems; and the media attention it attracts, it is worthwhile to consider the impact of foreign ownership (relative to other forms) on clubs' finances. This comparison is also pertinent in relation to the increasing occurrence of financial irregularities in club accounts. The paper addresses whether foreign investment actually helps clubs in financial difficulties or, in fact, causes further financial distress considering the

Club	Deal date	Owner	Country	Initial deal value (£million)
Fulham	May 1997	Mohammed Al-Fayed	Egypt	30
Chelsea	July 2003	Roman Abramovich	Russia	135
Manchester United	May 2005	Malcolm Glazer	USA	725
Aston Villa	August 2006	Randy Lerner	USA	75
Manchester City	September 2008	Abu Dhabi United Group	UAE	82
Birmingham City	October 2009	Carson Yeung	Hong Kong	81.5
Sunderland	May 2009	Ellis Short	USA	30
Liverpool	October 2010	New England Sport Ventures	USA	300
Blackburn Rovers	November 2010	Venky's Group	India	46

Note: Hamil and Chadwick (2010)

Table II.
Foreign ownership
and the EPL

“win” maximisation principle that foreign owners tend to follow. There is a financial argument that clubs should be run as viable going concerns as opposed to financially mismanaged entities. Some clubs may be able to buy instant success bankrolled by foreign millions but that does not necessarily mean that clubs will become financially stable overnight.

Methodology

For the purpose of this study the primary data were obtained by collecting (via Companies House) and scrutinising the annual accounts of EPL clubs for the period 2001-2010. The club accounts were analysed instead of focusing on the holding or parent company accounts for two reasons. First, since not all EPL clubs analysed actually have holding or parent companies there would be no consistency in using a mixture of club and parent accounts. Second, there is a danger that holding company accounts can be manipulated and the data can often be misleading, a case in point being Southampton football club who attempted to conceal club debt within the parent company accounts in an attempt to prevent the club from entering administration.

In total, 157 cases were analysed for each financial indicator examined (discussed below) as well as league performance relating to 20 clubs, with some case variance by season. Case variance occurs where a club may not have competed in the EPL for a particular season (see Table III).

The financial data obtained were analysed, using recognised industry techniques (see Wilson, 2011), in relation to five key areas of financial performance (growth, profitability, return on capital employed, liquidity and defensive positioning). The first three indicators allow us to examine an organisation's ability to generate profit and a potential return for its owners while the latter examines an organisation's ability to meet its obligations with creditors and its capital structure. Data were analysed further

Club	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Overall
Arsenal	1	1	1	1	1	1	1	1	1	1	10
Aston Villa	1	1	1	1	1	1	1	1	1	1	10
Blackburn	0	1	1	1	1	1	1	1	1	1	9
Bolton Wanderers	0	1	1	1	1	1	1	1	1	1	9
Chelsea	1	1	1	1	1	1	1	1	1	1	10
Everton	1	1	1	1	1	1	1	1	1	1	10
Fulham	0	1	1	1	1	1	1	1	1	1	9
Hull	0	0	0	0	0	0	0	0	1	1	2
Liverpool	1	1	1	1	1	1	1	1	1	1	10
Manchester City	1	0	1	1	1	1	1	1	1	1	9
Manchester United	1	1	1	1	1	1	1	1	1	1	10
Middlesborough	1	1	1	1	1	1	1	1	1	0	9
Newcastle United	1	1	1	1	1	1	1	1	1	0	9
Portsmouth	0	0	0	1	1	1	1	1	0	0	5
Stoke	0	0	0	0	0	0	0	0	1	1	2
Sunderland	1	1	1	0	0	1	0	1	1	1	7
Tottenham	1	1	1	1	1	1	1	1	1	1	10
West Brom	0	0	1	0	1	1	0	0	1	0	4
West Ham	1	1	1	0	0	1	1	1	1	1	8
Wigan Athletic	0	0	0	0	0	1	1	1	1	1	5
Overall	12	14	16	14	15	18	16	17	19	16	157

Table III.
Case variance

under seven different financial ratios (turnover increase, profit increase, profit, return on capital employed (net assets), current ratio, debt and gearing). Table IV provides an interpretation of the financial indicators used.

Clubs were then ranked against each other in relation to each financial ratio for each season under review to provide comparisons over time. Clubs received seven individual ranks in any given season, which were then summed to compute an overall financial score incorporating all aspects of financial performance (see Table V for a worked example). The lower the clubs' overall financial score the better their financial performance and vice versa. The rationale for deriving a combined financial score

Table IV.
Financial ratios and
their interpretation

Indicator	Calculation	Interpretation
Turnover increase (%)	(This year's turnover – last year's turnover)/last year's turnover	Higher score is more desirable
Profit increase (%)	(This year's profit (loss) after taxation – last year's profit (loss) after taxation)/last year's profit (loss) after taxation	Higher score is more desirable
Profit (%)	After tax return on sales as a percentage of turnover	Higher score is more desirable
ROCE (%)	Profit after taxation as a percentage of net assets	Higher score is more desirable
Current ratio	Current assets/current liability	Higher score is more desirable
Debt (%)	The absolute amount of debt divided by total fixed assets and current assets put together	Lower score is more desirable
Gearing (%)	Total amount of borrowings both short and long term. Calculated as gearing percentage of shareholders funds	Lower score is more desirable

Table V.
Data analysis example
for EPL 2010

Club	Profitability and ROCE		Liquidity	Defensive positioning		Growth		Overall (sum of key indicator ranks)
	After tax return on sales	ROCE (net assets)		Debt ratio	Gearing ratio	Turnover increase	Profit increase	
Arsenal	1	7	1	3	1	3	1	17
Aston Villa	12	5	5	13	10	7	4	56
Blackburn	3	9	6	2	6	4	13	43
Bolton Wanderers	15	3	15	12	7	8	14	74
Chelsea	13	12	16	14	1	10	9	75
Everton	4	6	13	10	14	12	2	61
Fulham	10	16	3	16	8	2	12	67
Hull	9	4	9	11	9	15	15	72
Liverpool	8	13	8	6	16	8	8	67
Manchester City	16	1	10	8	11	1	6	53
Manchester United	2	8	11	1	1	13	10	46
Stoke	6	11	2	4	5	5	16	49
Sunderland	14	14	7	7	13	10	5	70
Tottenham	5	10	4	5	1	6	11	42
West Ham	11	15	12	9	15	14	7	83
Wigan	7	2	14	15	12	15	3	68

(based on the seven ratios) was to establish an overall picture of financial performance, since consideration of the individual ratios might not provide consistent results. The authors acknowledge that each ratio was allocated an equal weighting within the methodology. However, this was deemed by the authors as the most unbiased approach. Moreover, the analysis also considers the specific indicators in their own right. In terms of sporting performance, clubs' final position in the EPL table in a given season was the basis for examining their relative success "on the pitch".

The financial and league performance data for EPL clubs was analysed using the software PASW Statistics (formerly SPSS) v18. Two types of statistical tests were undertaken. Correlation analysis was conducted to examine the relationship between the finances of EPL clubs and their league position. One-way analysis of variance (ANOVA) tests were then used to examine the effect of ownership type on clubs' financial and league performances. Where the results of ANOVA testing revealed statistically significant differences between groups, these were investigated further using appropriate *post hoc* procedures.

Results and discussion

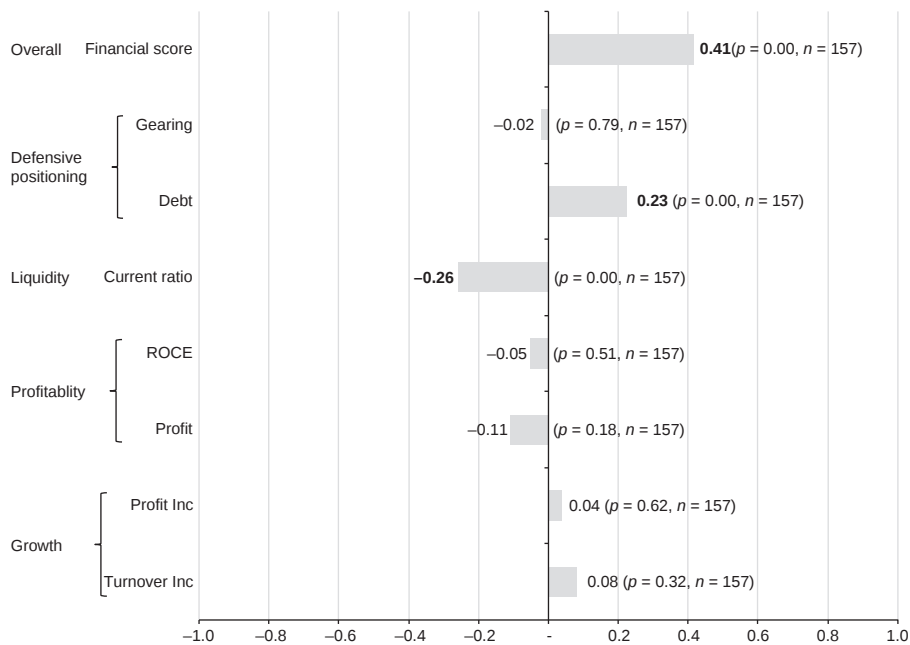
The results of the research are presented and discussed in the following order. First, we explore the nature and strength of the relationship between the financial performance of EPL clubs in a given year and their corresponding final league position, over a ten-year period (2001-2010), using correlation analysis. This relationship is then examined in more detail according to the different models of club ownership, that is, domestic, foreign and stock market. Thereafter, we investigate differences in both the financial performance and league position of EPL clubs according to the three types of ownership through ANOVA and *post hoc* comparisons. Because empirical evidence of the relationship between ownership and performance is somewhat inconclusive (as alluded to previously), it is hypothesised that there are no differences in the financial and sporting results of clubs competing in the EPL in accordance with their ownership structure. Finally, we review the finances of EPL clubs in recent years (2008-2010) in the context of UEFA's FFP regulations.

Relationship between finances and league performance

Figure 1 summarises the correlation coefficients (*r*-values) for league position and financial performance (in terms of the key indicators and overall financial score) of EPL clubs between 2001 and 2010. For all growth, profitability and liquidity indicators, a negative value of the correlation coefficient (i.e. $r < 0$) indicates that, as a club's league position improves (or worsens), so too does its financial performance and vice versa; and, a positive *r* indicates that these indicators are inversely related with league position. For the defensive positioning indicators and overall finance score, the opposite is true, that is a negative *r* signifies an inverse relationship, and $r > 0$ signifies a direct association, with league position. For all indicators, a score of ± 1 would indicate perfect correlation with league position and $r = 0$ indicates absence of any systematic trend between the relevant variables.

As Figure 1 illustrates, for most of the key financial indicators examined, the correlation with league position was found to be fairly weak ($-0.11 < r < 0.08$) and not statistically significant (i.e. $p > 0.05$). However, the *r*-values for the current ratio and debt ratio ($r = -0.26$ and $r = 0.23$, respectively) are statistically significant, indicating that they are significantly different from 0. In other words, there is some evidence (albeit not very strong) to indicate that clubs with a better liquidity position also tend to

Figure 1.
Correlation coefficients
for finance and league
performance of EPL
clubs 2001-2010



Note: Values in bold represent statistically significant results ($p < 0.05$)

finish higher in the league table. The same argument applies to clubs with a lower level of debt. Moreover, there was also a statistically significant positive correlation between the overall financial score and league position ($r > 0.4$) indicating that better financial health is moderately associated with better sporting performance in the EPL.

The correlation analysis above was extended to account for differences in the ownership structure of EPL clubs and the results of this investigation (statistically significant correlations) are shown in Figure 2. Consistent with the overall trend, there were no statistically significant correlations between the two growth indicators and league position when the data were analysed by ownership type. However, the strength of the relationship between league position and finance was significantly stronger in the case of the stock market ownership model for the liquidity and defensive positioning indicators as well as for the overall financial score. These findings suggest that if, for example, the stock market model is seen to perform better (or worse) in financial terms relative to other types of EPL club ownership, then this might also be reflected in their league position results. This hypothesis is tested in the following section of the paper.

Effect of ownership type on finances and league performance

Building on the results of the correlation analysis, a one-way ANOVA was conducted to compare the effect of ownership type on the financial and league performance of EPL clubs. Any statistically significant differences between groups were investigated using *post hoc* tests and the key statistics are summarised in Table VI.

There were no statistically significant differences in the two financial growth indicators according to ownership type. A similar trend was found to exist for ROCE;

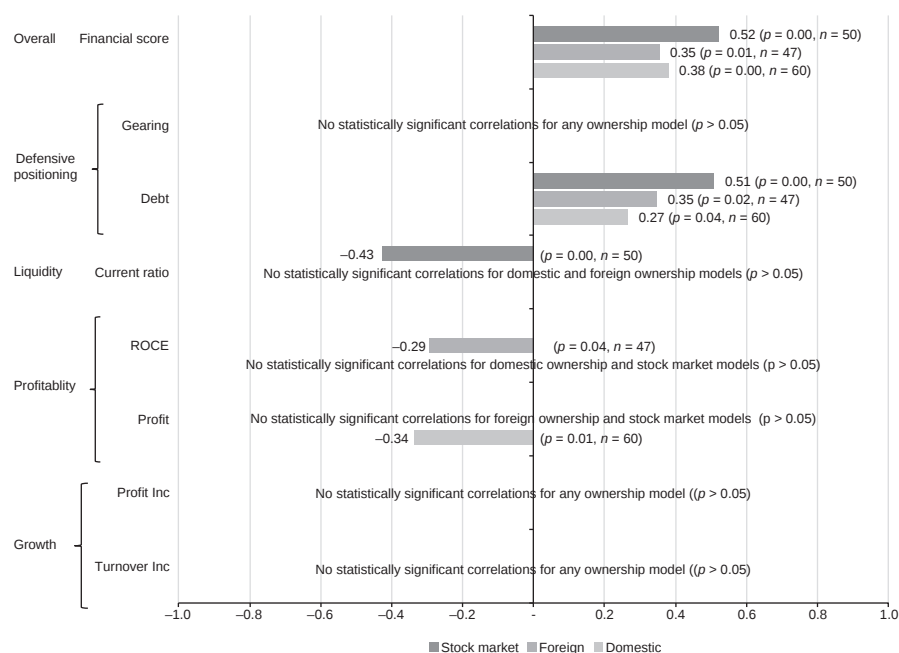


Figure 2.
Correlation coefficients
(finance v league
performance) according
to ownership

however, clubs operating under the domestic ownership and stock market models showed higher net profit as a proportion of turnover in comparison with clubs owned by foreign investors. Furthermore, clubs trading on the stock market demonstrated a better liquidity position and lower levels of debt than privately owned clubs, be it domestic or foreign investors. Whilst there was no statistically significant difference in the current ratio of domestic and foreign-owned clubs, the former outperformed the latter in terms of debt performance. Thus, foreign-owned clubs exhibited significantly higher debt levels than the other ownership models. Finally, in terms of the overall financial score, a composite measure of a club's financial performance derived on the basis of the seven key financial indicators examined, the stock market model was found to be the most financially efficient form of club ownership. *Post hoc* comparisons of the overall financial score between the domestic and foreign ownership were not statistically significant.

We have already established that there was a moderate positive correlation between a club's financial position, defined in terms of the overall financial score, and its league position (see Figure 1). Moreover, the strength of this relationship was found to be at its strongest for the stock market model relative to other ownership types (see Figure 2). Thus, it might be reasonable to argue that the stock market model also performs better in terms of league position. This assertion is supported, to some extent, by the results of the ANOVA and *post hoc* comparisons presented in Table VI. Both foreign ownership and stock market models outperform domestically owned clubs in terms of league position. Comparisons of league position between the foreign ownership and stock market models were not statistically significant. A better league position for foreign clubs relative to their domestic counterparts (despite there being no statistically significant differences in the overall financial scores of these groups) might

Table VI.
ANOVA and *post hoc*
comparison results

Indicator	Ownership	n	Descriptive statistics 95 per cent confidence interval for mean			Test of homogeneity of variances			ANOVA			Post hoc tests			
			Mean	Lower bound		Upper bound	Levene statistic	Significance	Between groups	Within groups	F/Welch		Significance	Test	Interpretation
				bound	bound										
Turnover increase	Domestic	60	35.90	5.13	66.67	3.12	0.04	2	93.12	0.59	0.55	No significant difference between groups			
	Foreign	47	27.36	11.64	43.08										
	Stock market	50	20.76	10.76	30.76										
Profit increase	Domestic	60	-701.28	-1,671.55	268.98	2.88	0.06	2	154	1.27	0.28	No significant difference between groups			
	Foreign	47	-246.83	-458.58	-35.08										
	Stock market	50	24.40	-244.90	293.70										
Profit	Domestic	60	-11.63	-16.19	-7.08	10.16	0.00	2	91.67	8.11	0.00	Tamhane (unequal variances) Domestic > foreign (p = 0.01); SM > foreign (p = 0.00); domestic = SM (p = 0.17)			
	Foreign	47	-26.91	-36.48	-17.35										
	Stock market	50	-4.92	-10.37	0.53										
ROCE	Domestic	60	106.90	-43.21	257.01	3.29	0.04	2	99.92	2.01	0.14	No significant difference between groups			
	Foreign	47	-53.77	-112.74	5.21										
	Stock market	50	-22.80	-83.31	37.71										
Current ratio	Domestic	60	0.27	0.24	0.31	49.05	0.00	2	88.53	9.00	0.00	Tamhane (unequal variances) SM > domestic (p = 0.00); SM > foreign (p = 0.00); domestic = Foreign (p = 0.43)			
	Foreign	47	0.24	0.19	0.28										
	Stock market	50	0.85	0.56	1.15										
Debt	Domestic	60	125.80	109.45	142.15	32.93	0.00	2	83.23	14.62	0.00	Tamhane (Unequal Variances) Domestic > foreign (p = 0.01);			
	Foreign	47	0.24	0.19	0.28										
	Stock market	50	0.85	0.56	1.15										

(continued)

Indicator	Ownership	<i>n</i>	Descriptive statistics			Test of homogeneity of variances			ANOVA		Post hoc tests
			Mean	Lower bound	Upper bound	Levene statistic	Significance	df	<i>F</i> /Welch	Significance	
								Between groups	Within groups	Test	Interpretation
Gearing	Foreign	47	217.96	157.99	277.92						SM > domestic (<i>p</i> = 0.01); SM > foreign (<i>p</i> = 0.00)
	Stock market	50	90.64	81.20	100.08						
	Domestic	60	-22.10	-63.95	19.75	0.73	0.49	2	154	1.36	
										0.26	No significant difference between groups
Financial score	Foreign	47	49.85	-98.64	198.34						SM > domestic (<i>p</i> = 0.00); SM > foreign (<i>p</i> = 0.00); domestic = Foreign (<i>p</i> = 0.57)
	Stock market	50	80.12	-1.33	161.57						
	Domestic	60	62.60	58.56	66.64	0.78	0.46	2	154	19.09	
										0.00	Scheffe (equal variances)
League position	Foreign	47	66.09	61.12	71.05						Foreign > domestic (<i>p</i> = 0.02); SM > domestic (<i>p</i> = 0.01); foreign = SM (<i>p</i> = 0.99)
	Stock market	50	46.48	41.26	51.70						
	Domestic	60	11.28	10.02	12.55	0.90	0.41	2	154	6.18	
										0.00	Scheffe (equal variances)
	Foreign	47	8.28	6.63	9.92						
	Stock market	50	8.14	6.56	9.72						

Notes: The *post hoc* tests are only relevant where the ANOVA revealed significant differences between groups (*p* < 0.05). The “>” sign in the final column of the table indicates “better” performance by certain groups relative to others on that indicator. For the financial growth, profitability and liquidity indicators better performance means a “higher” mean score. For the debt and gearing indicators and league position better performance means a “lower” mean score

Table VI.

be related to the fact that the correlation between financial score and league position was slightly weaker for both these ownership models.

Collectively, the findings above indicate that the stock market model of club ownership is more effective from a financial perspective relative to the private (domestic and foreign) ownership model, and from a sporting perspective relative to domestically owned clubs. Moreover, domestic ownership appears to be a slightly better model compared with foreign ownership in terms of selected financial indicators, although clubs owned by foreign investors perform better in the league. Despite these findings, there is an increasing trend of clubs moving away from the stock market model, primarily towards foreign ownership. To illustrate this point further, Figure 3 charts the ownership trends over the last ten years for clubs that have contested the EPL on a consistent basis. In 2010, only two clubs (Arsenal and Tottenham) were still trading on the stock exchange compared with nine in 2001 and seven in 2005. More recently, Tottenham has announced its intention to de-list its shares from the stock market and return to private ownership as part of plans to secure funds for a new stadium. By contrast, foreign takeovers have become the most dominant form of EPL club ownership.

Problems ahead? UEFA FFP

To deal with spiralling levels of debt and excessive spending, European governing body, UEFA have implemented measures that will seek to address the way in which football clubs operate financially in the future with the introduction of FFP. Financial discipline is an essential element of the measures which, among other things, seek to curb the spiralling transfer fees and the main component of the regulations – the “break-even” requirement – will come into force for financial statements in the reporting period ending 2012. Under the break-even requirement clubs may not spend

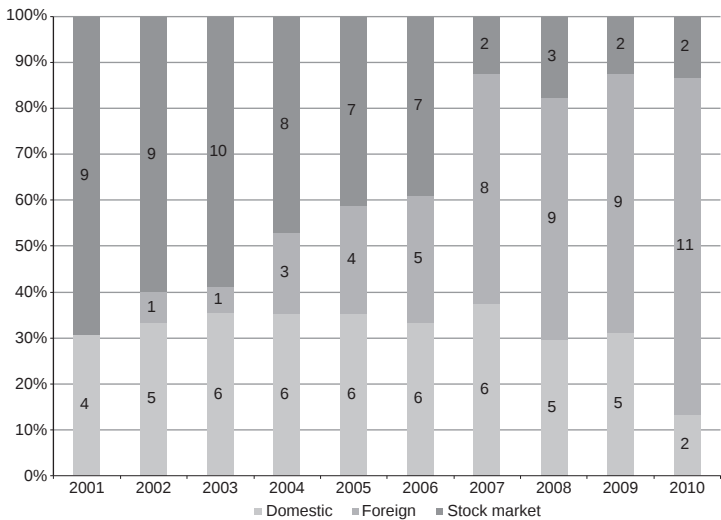


Figure 3.
Change in the ownership
structure of EPL clubs

Note: The data in the figure relates to clubs that have contested in the EPL in more than 50 per cent of the years analysed, i.e. on at least six occasions between 2001 and 2010

more than the income they generate. Clubs will also be assessed on a risk basis, in which debt and salary levels are taken into consideration and they will also have to ensure that liabilities are paid in a punctual manner (UEFA, 2010).

Such regulations may lead to clubs reinventing their respective business models. UEFA state that the FFP measures are not a means of punishing clubs but a way of helping them and also to help improve financial standards in European football. However, anecdotally at least, it would appear that many clubs – particularly in England – would struggle to reach the break-even requirement at the present time. Admittedly, there are areas of FFP that will take time to implement and there are also considerable grey areas within the proposals. Clubs will have a three-year window from the 2011/2012 season in which to target break-even and risk being excluded from European competition if aggregate losses total more than €45 m (around £39 m) over the same three-year period. There is also scope within the requirements for clubs to enhance future sponsorship deals to increase revenue streams and to commit funds to enhance training facilities and talent development in accordance with UEFA's licensing requirements on youth development. Manchester City is a particularly relevant case with respect to the issues raised above. The club recently recorded an annual loss of £194.9 m, the biggest in English football history, and a £73.9 m increase on the previous year (2010) where the club lost £121 m. However, this figure does not take into account the club's sponsorship deal with Etihad Airlines, worth an estimated £400 m over ten years, or the income from their Champions League campaign (2011/2012). City continue to work closely with UEFA and insist that FFP will not be an issue for them and the losses sustained in the meantime are necessary for the club to become sustainable and grow in the future.

There is more concern that certain clubs in other European leagues – where the brand is weaker than the EPL and television revenues and media exposure are not as high – could be in danger in relation to the new regulations. Recently, Italian club Juventus announced plans to raise €120 m through a share sale to ease the worst financial loss in the club's history (losses of €95.4 m were revealed for the year ending June 2011; Cutler, 2011). Moreover, the financial problems at Valencia have been well documented, highlighting the dominance of Real Madrid and Barcelona in La Liga and the financial gulf between these two clubs and the rest of the Spanish clubs. The Bundesliga's club ownership model and the 50 + 1 rule (see Dietl and Franck, 2007) has been praised in recent years but clubs such as Schalke 04 and Borussia Dortmund are currently in financial trouble and the way in which clubs are run in Germany may need to be addressed in the near future.

In an attempt to examine how many clubs in the EPL would be in danger of not meeting the break-even requirement at the present time Table VII charts the annual and cumulative losses of the 15 clubs which have been part of the EPL for each of the last three seasons 2008-2010. Only four EPL clubs made an aggregate profit (Arsenal, Blackburn, Manchester United and Tottenham). What is noteworthy here is that the two clubs currently listed on the stock market (Arsenal and Tottenham) feature in this bracket, whilst Manchester United only de-listed six years ago and plan to raise capital through a proposed floatation in Singapore, thus reflecting the results found in this study that clubs that float on the stock market return better financial performance. A further five clubs fall within the threshold of an aggregated £39 m loss over three seasons (highlighted in bold in the table) but clubs such as Fulham and Wigan, who struggle to obtain higher attendances and lack the greater commercial appeal of their EPL competitors, fall towards the higher end of the aggregated loss scale and if that

Table VII.
Cumulative profit (loss)
of EPL clubs 2008-2010

Club	Ownership model	2008 (£m)	2009 (£m)	2010 (£m)	Three year total (£m)
Arsenal	Stock market	36.59	36.44	92.32	165.35
Manchester United	Foreign	16.19	67.45	13.54	97.18
Tottenham Hotspur	Stock Market	6.56	29.87	-5.16	31.27
Blackburn Rovers	Domestic	3.03	3.58	-1.90	4.72
West Bromwich Albion	Domestic	7.61	-11.62	2.28	-1.73
Everton	Domestic	0.03	-6.92	-3.09	-9.99
Wigan Athletic	Domestic	-11.21	-5.84	-4.00	-21.04
Liverpool	Foreign	8.37	-14.03	-19.94	-25.60
Fulham	Foreign	-7.54	-6.88	-16.94	-31.36
Sunderland	Foreign	-2.27	-24.16	-26.18	-52.61
Bolton Wanderers	Domestic	-8.25	-13.39	-35.44	-57.08
Aston Villa	Foreign	-0.77	-30.14	-27.71	-58.62
West Ham	Foreign	-38.54	-16.25	-21.49	-76.27
Chelsea	Foreign	-70.94	-47.02	-70.44	-188.40
Manchester City	Foreign	-29.66	-89.69	-117.79	-237.14

figure continues to rise (as is the case with Fulham) then these clubs will find it difficult to compete financially. More alarmingly, six clubs have aggregate losses that exceed the £39 m threshold (shaded grey in the table) two of which (Chelsea and Manchester City) competed in the 2011/2012 Champions League. The cases of Chelsea and Manchester City stand out as both these clubs have received capital investment from wealthy benefactors in recent years. Roman Abramovich's contribution to Chelsea of over £700 m is the largest sum paid to a club by a single investor in English football history but even that looks set to be dwarfed in the future by Sheikh Mansour's input into Manchester City as the club continue to grow both on and off-the-pitch. This analysis mirrors the discussion put forward previously in this paper that the foreign ownership model is related to "win" or utility maximisation principles whilst clubs that float on the stock market place a greater emphasis on profit maximisation and producing a return on investment for their shareholders.

There is an argument, however, that FFP will actually achieve very little, other than to widen the gap between the top six in the EPL and the rest of the clubs. FFP is directly related to clubs who wish to apply for a UEFA license and qualify for European competitions, yet all clubs in the EPL wish to conform to the regulations. This makes sense, as running the club as a sustainable business should be a priority, but the spending power and commercial appeal of the top five or six clubs in England will make it very difficult for the so called lesser clubs to catch up and level out the financial playing field. Even then, the top clubs will continue to generate more revenue from maintained on-pitch success and driving commercial revenues off-pitch meaning that they will have more money to invest in player talent than other clubs under the concept of "spending within your means" which is the principle requirement of FFP.

Conclusion

The paper confirms empirically that clubs that float on the stock market are in better financial health and that clubs in pursuit of short-term sporting excellence are reliant on substantial investment, in this case from foreign investors. The paper offers an insight into the financial characteristics of profit maximisers against utility

maximisers within the EPL. The findings are also relevant in light of UEFA's forthcoming FFP regulations. However, the findings are not generalisable outside of the EPL. Future research directions include undertaking comparisons with other professional leagues in England and also with other professional football leagues in Europe.

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Corresponding author

Robert Wilson can be contacted at: r.j.wilson@shu.ac.uk