Review Article

Football as a Business

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Sean Hamil, Jonathan Michie and Christine Oughton (eds), *The Business of Football: A Game of Two Halves?* Edinburgh: Mainstream Publishing, 1999. 235pp. £15.99.

Stephen Morrow, *The New Business of Football: Accountability and Finance in Football* Basingstoke: Macmillan, 1999. 236 + xv pp. £47.50 (hb).

Stefan Szymanski and Tim Kuypers, *Winners and Losers: The Business Strategy of Football* London: Viking, 1999. 408 +vii pp. £17.99.

Having been crawled all over by sociologists and social anthropologists seeking the wider significance of player and fan behaviour, football is now being subjected to close and critical scrutiny by economists, accountants and business strategists. We know from David Conn's terrific journalistic account of the developments of the 1990s that professional football, after bumbling along as a chronically non-profitmaking activity for a century or more, has in a few short years made a number of businessmen very wealthy and provoked considerable attention from the City of London.[1] Leading football 'clubs' – a misnomer for most of the twentieth century anyway – are now publicly quoted companies operating in the leisure industry. Their owners are beginning to look for a return on capital comparable to that achieved elsewhere in an increasingly globalised economy. As Kevin Keegan found at Newcastle United, when you are a public liability company (PLC) the money people ultimately call the shots. The name of the game is no longer Glory, but the Bottom Line.

Academic Approaches

The three books under review here are largely written by academics, who bring the insights and concerns of their disciplines to bear on a world with which we are all familiar, and yet perhaps in other ways unfamiliar. One thing that each of these books does is assemble data on football as a business. This is useful, for it gives us a new perspective. Professional football, omnipresent in the media and in the thoughts and dreams of millions of fans, is actually pretty small potatoes in the business world. Premier League and Football League teams employ only about 7000 people; throw in Scotland, the Conference and other non-league semi-professional clubs and you will not get much above 10,000 in total. In a workforce of 28 million, this is a pinprick. The average Premier League club employs 170 people, according to Stefan Szymanski and Tim Kuypers. This would qualify as a small business under one commonly used definition. Only a handful of clubs are capitalised at more than £100 million. The turnover of most Pemier League teams averages well under £50 million. We are not, be it noted, dealing with corporate giants.

More like babes in the wood? The small scale of the newly floated companies may suggest that in the long run stock market-quoted football teams are unlikely to remain independent. A plausible future might see them taken over by one of the large leisure groups. Something like Granada, for example, has a turnover forty or fifty times that of Manchester United. In this context the BSkyB decision was something of a red herring. There would be no significant competition issues raised if, say, Ladbrokes took over Chelsea. Premier League teams are already active in the wider leisure market anyway: gate receipts at the big clubs account for less than half of turnover. Clubs are unlikely to be best placed to expand non-gate income by themselves; being part of a larger group makes economic sense, whatever traditionalists may say. This has certainly been the case in North American professional sport for many years. Links need not be in the leisure industry either. The recent link-up of Manchester United and Vodaphone my be the first of a number of possible new synergies hitherto unknown. Now that football businesses are no longer playing on their home ground, who knows what awaits?

Under the Football Association's famous Rule 34, football clubs' dividends were for many years limited to five per cent of the nominal face value of its shares. Rule 34 (never formally abandoned) was first circumvented by Tottenham Hotspur. Spurs formed a PLC holding company – which was free from dividend restrictions. The original Tottenham Hotspur FC became a subsidiary of the new publicly quoted company in 1983. The FA acquiesced in this device, which has been used by around twenty more clubs since. It has enabled them to adopt a more obviously commercial approach to their business.

Perhaps we should not exaggerate, though. Market disciplines have not produced massive dividends for shareholders. Szymanski and Kuypers argue that the market valuations of almost all the major clubs are excessive; only four out of seventeen clubs whose accounts they review were profitable in the period 1995-98. Most football PLCs are still under the control of those who launched them; their flotations made a great deal of money in capital gains for those who, like Martin Edwards of Manchester United and Ken Bates of Chelsea, oversaw this process of reconstruction. In only a very few clubs, however, do institutional investors – which usually provide the impetus for higher dividends – currently hold a large proportion of the shares. In far more cases the majority of shareholders are fans who, with a few shares each, do not normally constitute a threat to the incumbent Board, which may often still pursue its own agenda. Whether this is a stable situation, however, remains to be seen, Hostile takeovers of major teams by outside interests are always possible if dividends are inadequate, league form poor and shareholders can be persuaded to sell.

For the time being, then, few clubs are significantly profitable, despite the influx of investors' money and the big expansion in television money, gate receipts and sponsorship. Much of the revenue expansion of the last decade has gone to players:[2] Stephen Murrow's figures show that salaries in the Premier League now typically constitute between 120 and 150 per cent of gate receipts. Information of this kind, though interesting, can be gleaned from newspapers and websites. What is more interesting in these books is the attempt to go beyond journalism and apply some more disciplined thinking.

The novel feature of the book by Szymanski and Kuypers is its application of the lessons of business strategy to football – especially the approach to business strategy developed in the 1990s at the London Business School, under the influence of John Kay.[3] Business strategy involves seeking competitive advantage – something that makes a company more successful than its, often apparently very similar, rivals. For sustained leadership in a competitive market where there is rapid imitation of successful ideas, a company must have a 'distinctive capability'. This may take a number of forms. The firm may have a greater capacity than its rivals to produce continual innovations, it may possess a 'strategic asset' (a particular resource such as a prime location). It may possess a strong reputation (perhaps embodied in a brand) that attracts customers and employees, or it can possess a particular 'architecture' or structure of relationships between, for example, the firm and its suppliers.

Szymanski and Kuypers use regression analysis to establish the existence of competitive advantage. It is intuitively obvious to most football fans that spending large amounts of money on players is likely to improve a team's chances of success, although it cannot guarantee anything. In turn, high expenditure is facilitated by regular large gate receipts, which are a function of population concentration in the area around a club. So Szymanski and Kuypers quantify these effects, for example using longitudinal and cross-sectional data to establish the strength of the relationship between wage expenditure and team performance. They then turn to identify clubs that have consistently been able to outperform others, in the sense that their league position has been higher than would be predicted from their expenditure on players. Clubs of which this is true are argued to possess some distinctive capability. Liverpool in the 1970s and 1980s can be argued to have had a superior 'architecture based on the Boot Room under a succession of managers from Bill Shankly onwards'. Derby County and Nottingham Forest were also able to do better than than their crowds and expenditure would predict as a result of their 'strategic asset' in the form of manager Brian Clough.

This approach is only one way in which quantitative analysis can be used to back up thinking about football success and failure. Economists and business strategists are well equipped to do this as they apply techniques which have been used to deal with similar issues in other areas of business activity. For example, there is now a considerable literature dating back twenty years or so on the determinants of football attendance, a literature that draws on standard demand analysis.[4] There is more recent empirical work on such matters as the effect of managerial change on team performance (with analogies with literature on company performance and the link to managerial turnover).[5] In the Morrow volume, too, there is some interesting evidence on the effects of Sunderland's results on Sunderland PLC's share price.

Use of quantitative analysis can shed light on wider social issues, For example, Szymanski and Kuypers use their methodology to provide some backing for the contention that there is an element of racial discrimination in football. They find that teams with an above-average number of black players perform better in the league for a given level of expenditure on salaries. The implication is that the pay of black players is lower than their talents merit, one measure of economic discrimination. This sort of analysis is not to everyone's taste. Sometimes it might appear to be only putting a quantitative gloss on what common sense could tell you anyway. In my view, however, it represents a serious attempt to look at business strategies and outcomes in professional football in a rather more objective way than is often the case.

Regulatory Issues

These books are on more debatable ground when they discuss the issue of regulation of football. Professional football has from its earliest days relied heavily on self-regulation. The FA or the Football League historically laid down rules about such matters as admission prices, the retain-and-transfer contractual system (which existed until the George Eastham High Court judgment of 1963 and is still, even post-Bosman, with us in residual form), revenue-sharing, maximum wages (which existed in England and Wales from 1901 to 1961), maximum dividends and restrictions on club ownership. The changes unleashed in the 1990s have led many fans to call for a return to stronger self-regulation – and, failing that, for government intervention. This is an element in several of the contributions in Hamil, Mitchie and Oughton.

Businesses exist in a regulatory environment. Basic rules about security of property and ownership and about honesty and responsibility in economic transactions are necessary before sustained economic activity can occur, In modern times regulation has gone beyond this, embracing everything from competition policy, to health and safety, labour market institutions and environmental legislation.

Mainstream economists generally start from the position that the market works best if left to itself without government or other interference. However they stress that regulation may be necessary when the social costs and benefits of economic activity are not fully reflected in the price which consumers pay for a good or service. In these circumstances, the unregulated free market would produce a socially suboptimal outcome. Some issues apply right across the economy: for example, 'negative externalities' exist if firms are allowed to pollute the environment and there is a case for regulatory action. Or there may be 'public goods', such as technical advances, which would not be worthwhile developing if they were unprotected by patent regulation.

Other regulatory issues may be specific to an industry. Important examples arise when firms have excessive market power and can force consumer prices above the competitive level, or use their buying power to force suppliers to accept artificially low prices. It has long been argued that professional team sports have unique characteristics as an industry that make it necessary for 'firms' to collaborate in a way that would be regarded as undesirably anti-competitive in other industries, and for a body or bodies to regulate their conduct.[6] Because of the nature of team competitions, teams must combine to produce a game. In order to give individual games meaning, they must combine further to run a league or knock-out competition. This implies a relatively uncontroversial degree of collaboration, which is not fundamentally different from other forms of collaboration between firms – for example, contractors and subcontractors on a large construction scheme – and need not raise any major public policy issues. However, it is usually further argued that an essential feature of an attractive competition is uncertainty of outcome. A league where only a small number of clubs have a chance of winning is held to be less appealing than one where any one of a large number of teams could win. Hence many professional team sports adopt forms of self-regulation that reduce financial competition between clubs with the intention of boosting *sporting* competition as a consequence. The particular forms that restraints on competition have taken in British football do not by any means exhaust the possibilities. In the North American National Basketball Association, for instance, there have been 'salary caps' that place an upper limit on the amount a club can spend on salaries.[7] In other professional sports such as the National Football League in the United States, the reverse-order draft allows teams that finish last in the league in one season the first pick of new players in the next season.

In the USA, specific exemptions have been made to anti-trust policy in order to prevent these arrangements being ruled illegal. In Britain, and in the European Union more generally, no such exemptions exist and the legal status of regulations relating to transfer systems, restrictions on ownership, redistribution mechanisms, collective (rather than individual) negotiations of TV rights[8] has increasingly been challenged as competition law has strengthened.

The case for a return to greater regulation, if necessary to be provided by a government-appointed regulator on the lines of those running the formerly nationalised industries, is made by a number of authors in the Hamil, Michie and Oughton collection – perhaps most notably by Sean Hamil himself. In a rather peculiar chapter, he coins the concept of 'fan equity'. He argues that traditional fans are 'antipathetic to commodification, which is the driving force behind recent commercial trends in the industry'. They want to be part of a group, a 'deep emotional well'.[9] They have made a psychic investment in supporting their teams. This fan equity is being eroded and it will be the game's loss. The new, more affluent, fans are fickle and will not sustain clubs in a future where only a handful of clubs will stand a chance of winning anything.[10] The game therefore needs to be regulated to reduce financial competition and to maintain healthy sporting competition. Regulation is generally a good thing, as evidenced by the rebuilding of stadia as a result of government regulation following the Taylor Report.

A similar line is taken by Alan Brown, who served on the Football Task Force Working Party. His proposed regulator would:

> establish a code of conduct for football clubs; estabish binding rules for clubs; set performance targets for football clubs on a variety of issues . . . call any club to account at any time for alleged breaches of the code or rules; gain access to any evidence from clubs, including financial and ticket records; carry out spot checks; issue reports on the performance of clubs . . . enforce rules. including imposition of new club governance structure, fines and point deductions.[11]

Hang on a minute there. It is disappointing and reprehensible that no attempt is made in the Hamil, Mitchie and Oughton volume (the result of a conference of like-minded academic football fans held at Birkbeck College in February 1999) to present a more balanced view of regulation. If these fans had stood back a little from their enthusiasms and reminded themselves of some of the findings of the literature on regulation of business, they might be rather less ready to call for a regulator. Concepts such as 'regulatory failure' and 'regulatory capture' (where regulatory bodies intended to protect the consumer get diverted to serve the producer) pepper the literature. Recent experience of regulating utilities and transport in Britain is certainly not one of unalloyed success. As Szymanski and Kuypers put it in a rather cooler discussion: 'regulation. . . seldom pleases anyone. Companies feel it is too obtrusive, while consumers fail to see any benefit'.[12]

There is indeed a case for saying that *less* regulation is required in football, rather than more. Certainly the past suggests that regulation may often have been the problem rather than the solution, Tight restrictions on dividend policy and share transfer prior to the 1980s meant that new investment was difficult to attract, and that control of clubs was kept in the hands of too many chairmen who, though they might have been canny in their own businesses, often behaved in a very unbusinesslike manner in their stewardship of clubs. As Peter Sloane has written, ‘recent moves to open up clubs to the market are to be welcomed . . . as providing incentives to efficient operation’.[13] Furthermore, it is clear that restrictions on player mobility (let alone the harsher disciplines of the old retain-and-transfer system, and the operation of the maximum wage) suppressed players’ wages way below the level which their talents deserved – at least by comparison with entertainers and other individuals with similarly rare talents. This was ‘patently unfair’ as Szymanski and Kuypers point out, even if it did tend to increase uncertainty of outcome as teams were more evenly matched. Large scale redistribution of gate and TV money, as practised for many years, blunted the incentive for clubs to maximise revenue and kept football artificially cheap – one reason why grounds were allowed to fall into the dangerous state revealed by the Bradford and Hillsborough tragedies.

This point needs emphasising, for it could be argued that the government-imposed requirement to rebuild stadia following Hillsborough is not quite the success story Hamil contends. Many of the richer clubs, such as Spurs, who had been able to break out of the old structures and attract new investment, were already beginning to rebuild their grounds as they sought to move upmarket and attract more affluent supporters. The government’s implementation of the Taylor Report was perhaps unnecessarily costly and dictatorial (it is not clear quite why standing of any kind had to be proscribed, for example). It also involved what were in effect massive transfers of money from the taxpayer to increasingly affluent private companies. Indirectly this boosted share prices and added to the capital gains of the directors whose negligence in the past had led to the problem in the first place. Such perverse wealth transfers are a not uncommon feature of regulatory interventions in general.

Accountability and Corporate Governance

A related topic touched on in these books is that of accountability. The new commercialisation of top-class football brings new informational requirements, greater transparency and accountability to shareholders. Morrow deals with this issue at length. He provides a clear discussion of the accounting approaches which it is possible to take to the valuation of players as assets, and the way in which these have changed following Bosman. There is a chapter on this topic in Hamil, Mitchie and Oughton as well. Rather typically, despite a populist title (‘Is Paul Ince an Asset or a Liability?’), the treatment is much more superficial.

Morrow looks in detail at the published accounts of leading clubs, and shows how income and expenditure streams are changing. He points out that top-class football is now no longer the cash business it once was, with a large share of gate receipts now coming in the form of season-ticket sales and prebooking, and with other income sources such as television and sponsorship money now much more important. Morrow also provides a thoughtful final chapter where he looks in a balanced way at the issue of accountability in a wider sense. The belief that football clubs should be more responsive to their supporters (apparently supported by New Labour) can be linked to the wider debate that is taking place across Europe of the merits of shareholder versus stakeholder capitalism. Anglo-American corporate structure provides a strong incentive to profit maximisation because it facilitates an active 'market for corporate control'. Under-performing firms see their shares fall in value, so that a company may appear to be priced below the underlying value of its assets. This encourages hostile takeovers, where a new management comes in and improves the company's efficiency. The downside of this is said to be a myopia which forces incumbent managements to try to protect their position by maximising short-run profits at the expense of longer-term growth, and leads them to ignore broader social concerns.

Most of the contributors to the Hamil, Mitchie and Oughton book are strongly sympathetic to the notion of stakeholder capitalism. In a short chapter that explicitly links demands for supporter power to criticisms of the modern corporation going back to Berle and Means in the 1930s, Rob Branston, Keith Cowling, Nestor Duch Brown, Jonathan Mitchie and Roger Sugden call for reform of company law to ensure 'effective economic democracy'. In an even shorter chapter, Mitchie and Shay Ramalingam argue for turning football clubs into mutual organisations, which they extol as 'the ideal vehicle' for the future of football – conveniently ignoring the stampede from mutual status characteristic of the United Kingdom in the 1990s.

Szymanski and Kuypers bring greater realism to the debate. Less enthusiastic about demands for supporter representation, they provocatively point out that 'it is not clear that the established football fans either can or should hold any ownership rights over the structure and selling of football, any more than customers in any other form of retailing have any right to dictate the way in which products are sold'.[14] I have some sympathy with this. It is also not clear that many 'traditional' supporters have any great insight into running sustainable businesses. The most insistent demands from fans are always to sack the manager and buy more players – short-termism indeed. No wonder that arch-villain of Tottenham's White Hart Lane, Alan Sugar, has said 'I look at some of our fans as children. They're always asking their dad for new toys and you have to explain you can't afford them'.[15]

The Future

British football is changing rapidly. After a hundred years of endlessly fascinating repetition, where Preston played Burnley and Oldham played Bury season after season, change now seems to be taking place too quickly for many fans – including some academics as well as the general public. Yet the game is still here. By many indicators it is healthier than ever, attracting unprecedented interest internationally and domestically.

Nostalgia for a vanished economic landscape – steel, coal, heavy industry – now seems pointless to many as we move into the weightless economy of the twenty-first century. The heroic industries of the past now just seem to many dirty, dangerous and soul-destroying – even though they gave meaning to the lives of millions. Nostalgia for a vanishing football landscape may be equally pointless. The footballers of the past were grossly exploited wage slaves. They plied their trade in primitive conditions until thrown up the scrapheap at thirty-five. They played in front of fans who had little choice of alternative entertainment and were provided with minimal facilities. By the 1970s/1980s this clapped-out industry had degenerated into squalor, violence and danger.

Tomorrow's football is going to be very different, in ways we can as yet barely discern. European or even global leagues may be the future for the elite, while downsizing – though hopefully not oblivion if smaller clubs develop a niche role for themselves – will be the lot of others. New ownership structures may emerge, and new partnerships with sponsors and related industries. Contractual relations between players and clubs may alter dramatically. Business imperatives will increasingly drive this process of change, and understanding the nature of these imperatives is important for all who care about the game. Books like those reviewed here offer some guidance.

NOTES:

1. D. Conn, *The Football Business: Fair Game in the '90s?* Edinburgh: Mainstream Publishing, 1997.

2. In early 1999 there were said to be over seventy players in the Premiership earning over El million per year, see J. R. Shackleton, 'Fat Cats and the Winner Take All Society', Employment Policy Institute *Economic Report* 14, 2 (1999).

3. J. Kay, *Foundations of Corporate Success* Oxford: Oxford University Press, 1993.

4. Examples include P.J.W.N. Bird, 'The Demand for League Football', *Applied Economics,* 14 (1982), pp. 637-49; B. Walker, 'The Demand for Professional League Football and the Success of Football League Teams: Some City Size Effects', *Urban Studies* 23 (1986), pp. 209-19; S.M.Dobson and J.A. Goddard, 'The Demand for Standing and Seated Viewing Accommodation in the English Football League', *Applied Economics* 24 (1992), pp. 1156-63; D. Peel and D. Thomas, 'Attendance

Demand: An Investigation of Repeat Fixtures', *Applied Economics Letters* 3 (1996), 391-4.

5. R. Andas, S. Dobson and J. Goddard, 'Team Performance and Managerial Change in the English Football League', *Economic Affairs* 17, 3 (1997), pp. 30-36.

6. The classic contribution is W. C. Neale, 'The Peculiar Economics of Professional Sport', *Quarterly Journal* of *Economics* 78, 1 (1964), pp. 1-14. The analysis was applied to football by P. J. Sloane in a number of publications over the years, including 'The Economics of Professional Football: The Football Club as a Utility Maximiser', *Scottish Journal of Political Economy* June (1971), pp. 121-46. Sloane also edited a Special *Issue* of *Economic Affairs* on 'The Economics of Sport' in September 1997 (Volume 17, Number 3).

7. In closed leagues – those with no relegation -a minimum limit on payroll expenditure also exists. This is to prevent clubs adopting a low payroll/relatively low revenue strategy that might allow clubs to free ride on TV revenues and be profitable despite never winning anything!

8. It is easy to see why competition authorities are wary of collective negotiation: the Premiership is a cartel, restricting the supply of televised games and therefore forcing up the price. However, it is not axiomatic that clubs as a whole gain from this set-up. Though it certainly reduces Manchester United's income, it is not altogether clear that current arrangements (the number of games and the division of receipts) necessarily benefit the lesser clubs.

9. Hamil, Mitchie and Oughton, *The Business of Football,* p. 29.

10. This type of assertion is made on little evidence. It is certainly true that the demographics of football support are changing. A report by Leicester University's Sir Norman Chester Centre has recently drawn attention to the increasing numbers of women at games and the increased affluence of Premier League season ticket holders (*The Independent* 11 February 2000). But it cannot be inferred that these fans are less committed than the more traditional fan base. Arguably, given their often considerable financial outlay, they are more committed. Moreover media concentration on the Premier League has not prevented healthy attendances at lower levels of football, including the Nationwide Conference where gates have risen substantially in recent years.

11. Hamil, Mitchie and Oughton, *The Business of Football,* p.79.

12. Szymanski and Kuypers, *Winners and Losers,* p. 315.

13. P. J. Sloane, 'The Economics of Sport: an overview', *Economic Affairs* 17,3 (1997), pp. 2-6.

14. Szymanski and Kuypers, *Winners and Losers,* p. 314.

15. Szymanski and Kuypers, *Winners and Losers,* p. 291.