

“IT’S RESULTS THAT COUNT” - IMPRESSION MANAGEMENT IN FOOTBALL CLUB FINANCIAL REPORTING

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Context

In several European countries, seemingly endless words are spoken and written about football, about football matches, about football clubs. But for all these words, to paraphrase a well known cliché, ‘at the end of the day football is about goals scored and points won’ - football performance can be captured precisely by figures. Ostensibly there may seem to be congruence between measuring football performance and financial performance - accounting is often portrayed as a neutral process of measuring and reporting economic activity in numerical form. In practice though, accounting, or more accurately financial reporting - how the financial position and performance of an organisation is communicated to interested users - is not a simple numerical exercise. The aim of the paper is to illustrate some of the implications of this for stakeholders interested in understanding the financial performance and position of football clubs. Two important issues in this context are first, the nature and measurement of financial position and performance, and second, the means by which information on position and performance is communicated.

Methods

The paper focuses on two distinct facets of financial reporting in football clubs in two different European countries: first, the increasing use of narrative communication in the financial reports of British clubs, and second, the effects of the so-called ‘Salva Calcio’ (Save Football) decree for Italian clubs. Introduced by the Italian government in response to pressure from major clubs (Bianchi & Corrado, 2004), its aim was to try and prevent several clubs going into liquidation. The substance of the decree is that it permits Italian clubs to amortise the asset of players’ registration rights over an arbitrary period of ten years rather than over the length of a player’s contract, as required under normal accounting practice. Inevitably adopting this decree alters the reported financial position and performance of Italian clubs. Equally inevitably, the decree has been challenged by the European Commission on the grounds that it does not comply with EU accounting directives and constitutes a form of state aid (Colucci, 2004). The study of the application of the salva calcio decree draws on examples of accounting policy implementation and disclosure taken from the financial statements of Italian clubs. The justification for the salva calcio decree and its consequences are analysed in both a financial and a political context.

The study of narrative reporting is based on a sample of thirty British football clubs over a five-year period, beginning with the 1997/98 annual reports (Morrow, 2005). The study was concerned with whether narrative communication about the financial position and performance of football clubs has become a site of image management; the narrative being used to mask the financial position and performance of football clubs, including those listed on the Stock Exchange (Aerts, 1994). The incidence of narrative reporting was determined by carrying out a systematic analysis of the unaudited narrative content in football club annual reports. Nine key variables deemed to be of most significance to football businesses were selected.

Results

The paper argues that both facets of financial reporting are forms of impression management; companies attempting to manage the impression they make on key audiences. Despite the poor financial performance reported by many British clubs over the five-years, the study indicates that narrative reporting was highly skewed towards neutral and positive commentary. Of the 3,317 text units identified, only 14% were coded as negative statements, with the balance being evenly split between neutral and positive statements.

The evidence suggests that the narrative is focused on information which can be reported as good news, such as improved television deals, with little or no emphasis on equally important but less palatable information such as, for example, disproportionate increases in wages and salary costs.

Furthermore, a detailed study of disclosure on clubs' wages and salaries suggests an inconsistency between the underlying financial performance and position and the accompanying narratives. While a significant correlation was reported between lower ratios for wages as a percentage of turnover and positive, confirmatory narrative, the absence of such a correlation for higher ratios and negative comments at the very least suggests lack of balance in the clubs' narrative reporting.

Adoption of the salva calcio decree allows Italian clubs to publish accounts which underestimate their true costs in a given year, hide real losses on assets (intangible) and hence give a misleading picture to investors whose funds are placed at risk, and to other stakeholders. In short, the decree gives legal backing to impression management, with the result that the financial statements of clubs which have taken advantage of the salva calcio decree do not provide a true and fair view of their situations.

Discussion / implications

Neither narrative reporting by British clubs or the adoption of the salva calcio decree by Italian clubs has a direct cash flow. Instead both aspects of financial reporting are types of impression management; attempts by club directors to manage the impact the organisation makes on key audiences. Italian clubs use the decree to change the impression of their position and performance with a view to altering certain types of behaviour or to achieve some other desired outcome, such as ensuring that they are able to meet the licensing criteria of the FIGC (Italian Football Association). Further, clubs may also gain a short-term competitive advantage if it allows them to pay inflated prices and wages for players beyond what would be possible if their true position was reported. This can have consequences both at domestic and European levels of competition

Narrative reporting provides football clubs with an opportunity to communicate a wide range of factors that have affected or may affect their performance, to a wide range of stakeholders. Arguably it can be particularly beneficial in atypical companies like football clubs, because it provides a convenient means of highlighting idiosyncratic behaviour and results. But the challenge for football club directors is to make the narrative mean more. To do this, directors must focus less on impression management and more on providing a more balanced and less partial report of the club's performance and position, and on ensuring consistency between the financial and narrative parts of the annual report.

What both examples demonstrate is that it is naïve to view financial reporting as a neutral activity, to view football club annual reports as some form of financial league table. The motivation for impression management may differ from club to club and from country to country, but its prevalence in different forms demonstrates the need for users of financial reports and football club stakeholders to be alert to its existence.

References

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