

Session: **Managing sport in upcoming economic conditions I.**

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**The Premier League of Nations: English Owned or Foreign Owned; does it really make that much financial difference?**

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**Background**

Football has been considered big business since clubs began to float on the stock market in the mid 1980's and the English Premier League (EPL) now stands as the largest and most profitable league in world. Generating revenue of £1.4bn at the end of the 2006/07 season and reaching further into European markets than any other league with 1,670 hours of television coverage transmitted weekly to over 200 countries (Jones, 2008) investment from non-traditional channels is pouring into English football.

There are three different types of ownership structures in English football; through the stock market, through supporter's trusts, and through foreign or domestic investment; the stock market model, popular in the mid-1990's, has problems with stock value and corporate goals; and doubts have been raised as to whether a supporters trust can work in the Premier League due to the size of the companies involved. Consequently, the foreign investment model has grown in popularity since 2003. This type of ownership model is driven by three factors. First, as the football industry has become more commercialised, costs required to operate clubs have increased. Owners have been unable to provide the levels of investment required to compete and have sold their majority stakes to foreign investors. Second, ownership of an EPL club provides a 'trophy' asset, conferring global notoriety and fame on owners simply by virtue of owning a participant in the EPL. Finally, the high value of the most recent broadcasting rights of approximately £2.7 billion between 2007 and 2010 (Hamil, 2010) and the opportunities for global expansion to maximise the brand potential in emerging markets such as Asia indicates that significant revenues (and profits) can be made.

However, evidence shows that it seems necessary to consider the financial impact of foreign investment, not least considering the increasing number of financial irregularities in club accounts. While certain investors such as Roman Abramovich at Chelsea act as a benefactor by underwriting all debts and sustaining high annual losses, certain takeovers have been leveraged on debt, Manchester United and Liverpool being two such examples (Hamil and Chadwick, 2010). There must certainly be an argument that clubs should be governed correctly and run as viable going concerns as opposed to financially mismanaged entities. Clubs may be able to buy instant success bankrolled by foreign millions but does it necessarily mean that clubs will be in good financial health. This paper, therefore, compares the financial health of English owned clubs against their foreign counterparts and explores the financial impact that their health may have - 40% of the EPL is now in the hands of foreign investors.

## **Methodology**

Data for this research was obtained by dissecting the annual accounts of the clubs in the study between 2006 and 2008 - the club accounts and not the holding company accounts were used for two reasons. First, not all 20 EPL clubs have holding or parent companies so there needs to be a mechanism to produce like for like comparisons. Second, holding company accounts can provide misleading data, a case in point being Southampton Football Club who attempted to conceal the football clubs net debt in the parent company accounts to avoid a 10 point deduction for entering administration.

The results were analysed in relation to the five key areas of financial performance - all relevant to football clubs and investment - as outlined by Wilson and Joyce (2008). These were; growth, profitability, ROCE (Return on Capital Employed), liquidity and defensive positioning. The first three indicators relate to an organisation's ability to generate profit and return for its owners and also to maintain a sustainable future. The latter relate to an organisation's ability to meet its liabilities as they fall due and also how certain organisation's are financed and how much capital is made up of debt finance. Each club was ranked for each measure against each other and an overall financial health table was constructed. This meant calculating average results across the 3 years of data and ranking each club against each measure.

## **Results / Conclusion**

Superficially, focusing on the overall economic picture of the Premier League, it appears that all clubs are in poor financial health. Clubs are placing themselves in significant financial trouble in an attempt to dominate the domestic scene. The financial league is dominated by high levels of debt, poor liquidity and low return on sales and capital employed and it seems to make very little difference whether a club is in the hands of foreign or domestic owners. In 2006, the foreign ownership model was the most profitable whilst in 2008 English owned clubs performed more effectively. In summary, over the three year period under analysis, it appears there is very little competitive advantage to be gained from either ownership structure. When considering the clubs who finished consistently in the top four in the financial health league, it might be argued that perhaps the English ownership model is financially healthier. However, it must be noted that these clubs are also well established, characterised by large fan bases, modern stadiums with large capacities, solid infrastructure and a stable boardroom. These are key areas which that will often affect financial performance without most people realising it.