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**The choice of the legal form and its effects on governance: A case study of an Austrian soccer club**

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### **Research Question and objectives**

**The aim of this paper is to give insight into the choice of the legal form of professional soccer clubs (PSCs) and its effects on governance. Therefore following research questions will be addressed:**

**Does the legal form of a PSC have an impact on its governance structure? If so, can there be drawn any managerial recommendations to increase the probability running a PSC more sustainably?**

**The objectives of this study are to**

- **show evidence that governance is essential to increase the probability running a PSC sustainably,**
- **look at the effects of the choice of the legal form of a PSC on governance effectiveness and**
- **analyze the characteristics of the three different legal forms of a PSC concerning financial, stakeholder management, structural, tax and liability issues.**

### **Relevance and state of the field**

**Why is a clear governance structure vitally essential for running a PSC sustainably? Three inter-related factors are identified and put forward.**

**First, Hamil et al. (2004) report a revenue increase between 1994/1995 and 2001/2002 of 170 percent. Despite this revenue improvement, PSCs have reported serious financial problems (Walters/Chadwick, 2009). Compared to the revenue increase of 170 percent, profits declined by 332 percent and significantly more PSCs reported record losses (Deloitte and Touche, 1999, 2002). One of the main reasons for that phenomenon is the rising income gap between sportive successful and unsuccessful PSCs. Sportive top performer are rewarded disproportionately high in terms of television income streams and bonuses for competition wins. Cross and Henderson (2003) and Grundy (2004) state that professional soccer clubs in England are hardly covering their cost of capital. That leads to the conclusion that even sportive successful PSCs face cost control problems in terms of rising player salaries.**

Second, Michie and Oughton (2005) point out that since the "Bosman ruling", players have gained in bargaining power. As a consequence, player salaries have risen since then which affects not only the sportive successful PSCs and can therefore partly explain the decline of PSC profits in general. Apart from an increase in revenues and labor costs, PSCs face an increase in the level of risk as well (Hamil et al., 2004).

Third, PSCs are mainly financed through television revenue streams and bonuses for competition wins. Additionally, due to the pressure of soaring labor costs PSCs have adopted innovative finance strategies (Grundy, 2004). This resulted in a dangerously diversified finance portfolio. Moreover, the need for PSCs to benefit from television and competition cash flows has made them invest heavily in players. In this case, investing is a game of gamble because not all PSCs can be guaranteed to be sportive successful. While funding the game, club owners are emotionally overcommitted. This makes rational decision making and reasonable engagement from an economic perspective for competitors even harder.

A significant change in level of revenues, labor costs and risk make it necessary to also increase the level of internal control mechanism (Hamil et al., 2004).

### **Research design**

The research design of this paper persists of two steps. In a first step an extensive literature review was undergone. Thereon possible legal forms in Austria are characterized. Building on that, the second step, the empirical part of this paper consists of an analysis of an Austrian PSC. Fortunately we are granted access to a unique data set for this study. The investigated PSC has lived through three legal forms within a time range of ten years which is inimitable in the german speaking area. This opens up a great opportunity to examine the differences between these three legal forms within only one PSC. However, the findings of this study may not be generalize able because a "case study is a research strategy which focuses on understanding the dynamics present within single settings" (Eisenhardt, 1989). According to Mintzberg (1979) it is not about the size of the sample, the important reason for a research method is the well defined focus for collecting specific kinds of data. These two steps combined in this paper can show the effects of the choice of the legal form on governance effectiveness.

### **Discussion of progress**

Does the legal form of a PSC have a high impact on financial, stakeholder management, structural, tax and liability issues? There are three exclusive alternatives to run a soccer club under the statutes of the Austrian Soccer Association. An incorporated association is either controlled by their members or by a limited company. A third option is an incorporated association that has spun off their first team into a limited company. Due to the continuing commercialization of the soccer industry an incorporated association will no longer be an applicable alternative for a PSC (Karollus, 2001; Dietl/Franck, 2007). We will examine the characteristics of each legal form. Concerning these problems this paper will provide deeper insights for the reasons why a PSC should choose a specific legal form and how this affects its governance.