Where next for ffp? Towards a model for measuring financial performance and financial sustainability in the English Premier League

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Aim of abstract/paper - research question
The aim of this paper is to develop a model that utilises both sporting and financial variables to provide a more holistic measure of football club's performance in the English Premier League.

Theoretical background or literature review*
In light of the forthcoming UEFA Financial Fair Play Regulations (FFP) and the increasing pressure of clubs to be more prudent with their financial management, it is a particularly relevant time to investigate the financial performance of professional football clubs and how financial performance is measured. With reference to the English Premier League (EPL), financial data shows that clubs are leveraged by significant levels of debt (nearly £3bn in 2010) and that a financial paradox exists; with rising revenues (approximately £2bn in 2010) and declining profitability. Figures from Deloitte confirm this trend throughout Europe with greater imbalances between revenue and costs for clubs in Europe's 'big five' leagues (see also Andreff, 2007 among others).

A number of papers have debated the concept of financial performance of football clubs in recent years. Some have been descriptive (see Hamil and Walters, 2010), whilst others have put forward in depth statistical analysis (see Barros and Garcia-del-Barrio, 2008). However, what is apparent is that there is no fixed model or identification of variables that measure financial performance accurately. The aim of this paper is to develop a model that utilises both sporting and financial variables to provide a more holistic measure of EPL clubs' performance, empirically, through the application of a weighted average methodology (see Andrikopoulos and Kaimenakis, 2009).

For some, a more statistical approach would involve using Data Envelopment Analysis (DEA) to measure the efficiency of professional sports teams (see Carmichael, Thomas and Ward, 2000 among others). These involve using a number of different inputs and outputs (e.g. points obtained, attendance figures, player salaries, turnover figures etc.) in order to compute an overall efficiency score of both individual clubs and leagues. However, whilst DEA analysis has proven useful in computing efficiency scores, it does not help to create a model, that consists of a number of different sporting and financial variables, which can be applied to provide an overall performance score for professional sports clubs.

Methodology, research design and data analysis
To investigate the calculation of a financial performance score, the paper utilises the *FOrNeX* model (see Andrikopoulos and Kaimenakis, 2009) which outlines how the intellectual capital of a football club is measured. Taking this further, the paper applies a weighted average methodology to a number of both sporting and financial variables in order to calculate a composite index score of overall performance. Higher weightings are assigned to variables directly linked to the UEFA FFP regulations and then in order of importance from a basic business perspective. The method builds on the principles of FFP by analysing financial performance in relation to a greater number of financial performance objectives. Performance variables for each club are ranked against other clubs in the league providing an 'intra-industry' comparison and benchmark. Financial data was obtained from the company accounts of English Premier League clubs over a five year period from 2006-2010. The number of clubs was standardised so that all clubs must have competed in every Premier League season during that time to be included within the study. Consequently, 13 clubs were selected for analysis and each club obtained a performance score for each one of the five years calculated through 11 variables each time.

Results, discussion and implications/conclusions
Our analysis reveals that the results obtained for the overall performance index score are broadly consistent with those obtained through focusing on financial performance and sporting performance separately. Notably, four teams (Manchester United, Arsenal, Liverpool and Tottenham) appear in the top 5 of all three performance tables. Chelsea rank high on sporting performance but return the worst financial performance owing to the fact that they are heavily reliant on a borrowings from a wealthy benefactor. A similar trend might be expected to occur in the case of Manchester City in the coming years. From a sustainability perspective, the clubs that rank towards the bottom of all three tables (e.g. Fulham, Wigan and Bolton) should be regarded as the 'at risk' clubs. This point is further underlined by the forthcoming FFP regulations which will make it very difficult for less established clubs to close the gap on the more established peers if clubs can only spend within their means. Whilst the move is prudent from a business perspective, it may prove just to facilitate the rich getting even richer and perhaps undermining the basic principles of UEFA FFP.

References – limited to 5

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