

# How is the Financial Health of Spanish Football Clubs?

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## Abstract

The financial viability of professional football clubs is a major issue for football authorities. The UEFA licensing system reflects the interest on financial control in football. Sloane (1971) broke with the tradition of studying American professional sport considering that a club's aim is to maximize profit. At least, for English football, profit making clubs are not the rule. Szymanski and Kuypers (1999) affirm that, historically, there is no relationship between profit and playing performance. Morrow (1999), asserts that a fundamental dilemma exists for football clubs. This is to achieve the balance between playing performance and economic aims in the long term. Barajas (2005) concludes that Spanish clubs do not have as a primary goal to reach profits through their sports performance.

The aim of this paper is to analyse the financial situation of the Spanish Professional Football Clubs and to check its evolution since year 2000.

I have worked with the Financial Statements of 26 clubs of the First and Second A Division corresponding to year 2005. Firstly, I have checked the quality of these Annual Accounts studying their Auditing reports. Then, I have analysed the financial structure of that clubs following the Morrow's (1999, 111) methodology. An efficiency analysis and a study of the weight of different accounts have been carried out. Finally, I have made a comparison between the situation in year 2000 and 2005.

The main results are that:

1. The financial information delivered by Spanish football clubs is quite poor. Only five clubs of the sample have positive auditing reports.
2. The 48% of the clubs have negative equity funds. It means that their assets can't cover their debts.
3. Only the 13% of the clubs can cover the interests with its ordinary profit. The cover ratio improves if non ordinary profit is included.
4. 52% of clubs have net loss. The median of profit is only €58,665 (It was €116,632 in year 2000).
5. The wages to turnover ratio is very high. Taking wages and depreciation over turnover ratio the situation gets worse. Only the 30% of the clubs have a ratio below 0'7.
6. Within a sample of 22 clubs of Professional Football Clubs, the total lost of equity fund in five years is almost €150 million. It means an average of €6.8 million which would imply a total sum of €285 million aprox.

7. The average reduction of net profit in the period is €1.5 million. It would suppose €65 million of decreasing profit in professional football.
8. The cost of wages for getting a better classification in league grows exponentially when clubs compete for the first positions.
9. A significant high relationship exists between sports performance and revenues ( $R^2 = 0.8$ ) but there is no significant relationship between sports performance and profit (loss).

Taking these outcomes we can conclude that the financial situation of Spanish football is getting worse and becoming dangerous. Clubs with higher potential to achieve revenues as Real Madrid and Barcelona have a better wages to turnover ratio. Smaller clubs have to spend a higher proportion of their revenues on wages to be competitive but it means that their financial results are worse. It will be necessary to set some salary cap if we want that football survive.

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