OWNERSHIP STRUCTURE AND FINANCIAL CRISIS IN THE ENGLISH PREMIER LEAGUE

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Abstract

Background
English Premier League football clubs are governed via one of three ownership models; the stock market, the domestic investor and the foreign investor. Historically, the stock market model has seen problems with stock value and corporate goals resulting in 14 clubs delisting between 2001 and 2007 (only 2 clubs remain ‘listed’ today) (Hamil and Chadwick, 2010). In their place, the number of domestic and, more recently, foreign owners has grown – today 9 clubs are owned domestically and 9 by foreign investors. Foreign ownership has been driven by one (or a sum) of three drivers; first, as the football industry has become more commercialised, costs have increased and traditional owners have been unable to provide the levels of investment required to compete for league position. Second, ownership of an EPL club provides a 'trophy' asset, conferring global notoriety and fame on owners. Finally, the high value of the broadcasting rights (Hamil and Chadwick, 2010) and the opportunities for global expansion indicates that significant revenues (and profits) can be made.

However, financial data shows that EPL clubs are leveraged by significant levels of debt (nearly £3bn in 2010) and that a paradox exists; with rising revenues (approximately £2bn in 2010) and declining financial performance. Figures from Deloitte (2010) confirms this trend throughout Europe with greater imbalances between revenue and costs for clubs in Europe's 'big five' leagues (see also Andreff, 2007; Ascari and Gagnepain, 2006; Dietl and Franck, 2007). Recent examples of papers debating the financial performance of clubs in England have been largely descriptive offering very little by way of statistical analysis (see Hamil and Walters, 2010; Emery and Weed, 2006). This study differs by statistically analysing imbalances between revenue and cost in relation to ownership structure and league position at a time when UEFA have signalled their intent through forthcoming Financial Fair Play regulations for clubs to be run as going concerns as opposed to apparent financially mismanaged entities.

Methodology
For the purposes of this abstract data was obtained by dissecting the annual club accounts of EPL clubs between 2007 and 2009, however, given the findings this will be extended to provide a longitudinal study over 10 years. The results were analysed in relation to the five key areas of financial performance as outlined by Wilson (2011). These are; growth, profitability, return on capital employed, liquidity and defensive positioning. Each club was ranked for each measure and an overall financial health table was constructed. This meant calculating average results across the 3 years (10 years in the full paper) of data and ranking each club against each measure. The financial performance of each club was then compared against its relative position in the league. Correlation analysis was used to test the direction and the strength of the relationship between on-field performance and off the pitch returns.

Results/Discussion
Initial results show that there does not appear to be any systematic link between financial performance and league performance, that is, clubs that manage their finances more effectively are not necessarily those that perform the strongest in the Premier League and vice versa. A moderate relationship was found to exist in 2007 ($r = 0.55$), however this relationship weakens in 2008 ($r = 0.45$) and 2009 ($r = 0.17$).

When considering the effect of ownership type on the league position and financial performance of clubs there was no systematic link between the two variables. For clubs owned by domestic investors, the correlation coefficient values ranged from 0.22 to 0.75 between 2007 and 2009, while the r values for foreign-owned clubs were between 0.32 to 0.51. A relatively stronger relationship was seen for clubs owned by domestic investors in 2008 ($r = 0.75$) compared to foreign investors ($r = 0.32$), whereas in 2009 this finding was reversed, that is, financial performance is more closely linked to the performance for foreign-owned clubs ($r = 0.51$) compared to domestic investors ($r = 0.22$).

Whilst the findings are not conclusive, based on 3 seasons data, there is sufficient evidence to suggest that a longitudinal study is completed (indeed the relationship reversal from one year to another warrants further enquiry), to better understand whether the performance of Premier League clubs is a function of their ownership structure and financial health.

What remains however is that clubs owned by foreign investors are leveraged by significant levels of debt (MUFC £716m, Chelsea £701m and MCFC £194.4m) which impairs their ability to perform well financially. UEFA is certain that the FFP regulations will succeed, that however remains to be seen.

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