

Play the Game 2007
Reykjavik, Iceland

**Can supporters' trusts play a meaningful role in
the reform of European football?**

Sean Hamil

Birkbeck Sports Business Centre

www.sportsbusinesscentre.com

Birkbeck College, University of London

Why Should We Care if Football Clubs Live or Die?

- ❑ In England, Scotland, Wales and Ireland most football clubs are constituted as private limited companies with private shareholders.
- ❑ Yet they rarely make a (legal) profit.
- ❑ And are effectively regarded as social and cultural institutions by their supporters – their key “community”.
- ❑ Yet if left to unfettered market forces many will die (to property developers) – with consequent reduction in social capital.
- ❑ Supporters Direct proposes that there is a role for supporter (co-operative) stakeholding/ownership in preserving and developing a sustainable life for these clubs.

Supporters Direct

- ❑ Aims to establish co-operative societies (supporters' trusts) owned by football supporters who can then invest in their football clubs.
- ❑ Over 140 trusts established (including 31 at clubs in Scotland) – huge increase in trust ownership/investment after the collapse of the ITV Digital broadcasting company which held the pay-tv rights for the English Football League in the UK (after one year of a three year deal).
- ❑ Supporter control at 3 English Football League clubs (*Brentford, Notts. County, and Stockport County*) and one Scottish Football League club (*Clyde*).
- ❑ Supporters' **ownership** at 8 non-league clubs (*including Exeter City, AFC Wimbledon, AFC Telford, Enfield Town, FC United of Manchester and Clydebank*).

William Gaillard, Director of Communications, UEFA Supporters Direct in Scotland Conference Edinburgh - 28th May 2006

- ❑ “The football family must remain united” - informed by a view that football has an educational, cultural and social role, as well as an economic one.
- ❑ G14 is informed primarily by an economic entertainment model - under-estimates interdependence with non-elite.
- ❑ Argues explicitly that the move toward stock market de-listing is because of contradiction between stock market rules and the aims of football.

The Independent European Sport Review (2006)

Potential Role for Supporters' Trusts

- Point 5.21: “The authors of the Report believe that properly structured supporter involvement will help to contribute to improved governance and financial stability...and...it might be worthwhile to examine the feasibility of rolling out the Supporters Direct framework on a European level...”.
- Supporters Direct is currently working with UEFA on a feasibility study to test the viability of the supporters’ trust model across Europe.

Alan Sugar on Football Clubs as Investments - September 2001

A message for Football's business apprentices?

- ❑ “With the exception of one football club - Manchester United - it is questionable whether they are good investments or not.”

- ❑ “I’ve got my [13% of Tottenham - down from 40%] and I’m quite happy. We’re all entitled to a little hobby” (Author’s underline/bold).

- ❑ He has since sold the balance of his shares begging the question:
 - is a Premier League football club “trophy” asset, and not a true profit-generating asset?

English Football: Pre-Tax Profitability

	05/06	04/05	03/04	02/03	01/02
❑ Premier League	-£69m	-£78m	-£128m	-£153m	-£137m
❑ Championship	-£47m	-£65m	-£47m	-£126m	-£36m
❑ League 1	-£17m	-£13m	-£16m	-£34m	-£28m
❑ League 2	-£4m	-£4m	-£4m	-£5m	-£3m

- ❑ Whilst profitable at operating profit level, almost all Premier League clubs never make a pre-tax profit?
- ❑ Football League clubs don't even make an operating profit!
- ❑ 41/92 English League clubs have been in financial administration over the 1992 -2007 period – the most prominent latest example is Leeds United.

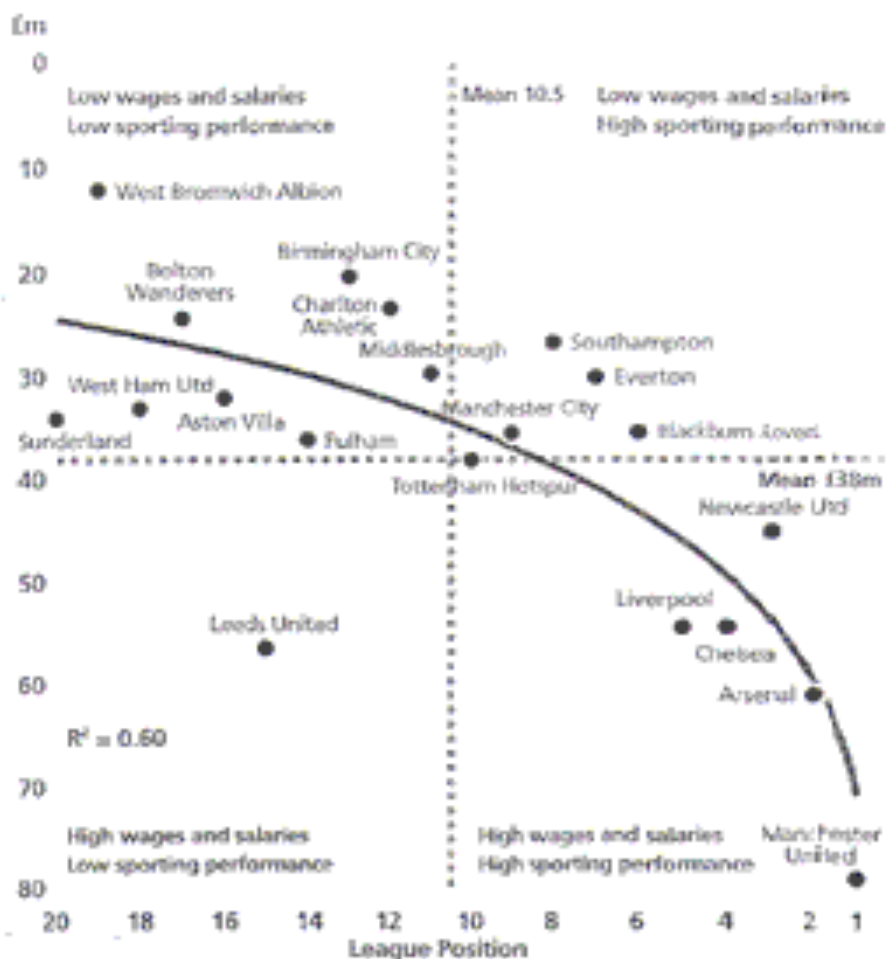
Source: Deloitte, 2004, 2005, 2006 & 2007.

Football: A Long History of Corrupt Practices

- ❑ Historically a cash business.
- ❑ Drive for success on the field provides an incentive for corrupt payments to facilitate transfers – the “bung” culture – and “under-the-counter” tax-free payments to players.
- ❑ Club owners at three English clubs – Chesterfield, Darlington and Exeter – have gone to gaol in the last seven years.
- ❑ Their illegal practices have endangered the very existence of these clubs – Chesterfield and Exeter saved by supporters’ trusts.
- ❑ Corruption is an ethical problem, but it is also a regulatory problem because the results of corrupt practices de-stabilise and endanger the very existence of clubs.
- ❑ Both Chesterfield and Boston United have been promoted in recent years, despite having points deductions for organising “parallel” contracts – corruption allows unfair competition.

Can money guarantee success (or protect against failure)?

Chart 3.4: Premiership clubs – comparison of total wages and salaries with league position: 2002/03



Note: The figures illustrated in the chart are extracted from the appendix. Hence all relevant notes in appendix apply. The R^2 factor is a statistical measure of the strength of the relationship between two sets of data – whereby in the range 0 to 1, a factor closer to 1 indicates a stronger relationship. The graph is divided into four quadrants depending on wage and salaries levels and sporting performance. Three clubs who are operating below the trend line may be viewed as overperforming relative to wage levels in 2002/03.

Source: Deloitte analysis.

Corporate Governance of Football Clubs

Why Does it Matter?

- “Since it is so successful, why should football bother about its occasional scandals? Why meddle with a success story? Does it matter if the world of football is tarnished by rumours of financial misbehaviour? There is a tendency for people within the game to dismiss this subject with a cursory statement: ‘that’s football’ as if it were the natural order of things for financial misconduct to be part of the game.”

Smith, J & LeJeune, M. (1998), *Football: It's Values, Finances and Reputation*. The FA. para. 2.1.

- Sir John Smith is an ex-deputy chief constable of the Metropolitan Police.

“Football Clubs Urged to Sell Off Stadia” (1)

- ❑ A Cass Business School report (Professors Key and Brady) suggests that it is only worthwhile for 16 out of 92 clubs surveyed to maintain their own pitches.
- ❑ This is because stadiums are only used infrequently – in contrast to other land uses such as flats or shops – and tend to generate less income. In effect, a ground’s land value must be higher than local residential land values in terms of what it generated in revenue.
- ❑ So in London, where residential land is more than £3m an acre, a club would need to generate more than 60,000 spectators per game to justify its ground.

Source: *Financial Times*, 7th April 2006.

“Football Clubs Urged to Sell Off Stadia” (2)

- ❑ Relying on matchday income – “That is an awfully light usage of land compared to covering it with houses or shops, for example.”
- ❑ The average English football club was carrying £73 of property assets on the balance sheet for every £100 of revenue, twice as much as the average retailer.
- ❑ Clubs were also urged to build “ancillary businesses” with music, dining, catering and community facilities.
- ❑ In only a handful of northern towns with successful clubs, such as Blackburn, Middlesbrough and Bolton did it make financial sense to own the ground.
- ❑ Implies a need for ground-sharing, and franchising.

Source: *Financial Times*, 7th April 2006.

Hearts (Edinburgh)

		<u>2004/2005</u>	<u>2005/2006</u>
❑ Turnover	-	£8.4m	£10.3m
❑ Pre-tax loss	-	-£2.7m	-£5.3m
❑ Debt (held by Mr Romanov's bank) -		£21.5m	-£28.4m
❑ Ground utilisation	-	69%.	93%
❑ Wages/turnover	-	54%	97%

❑ Tynecastle ground is a valuable piece of real estate close to Murrayfield rugby stadium.

❑ Hearts Supporters Trust fought to prevent a previous owner moving the club to Murrayfield and retain a watching brief.

Hearts being destroyed by Romanov?

- ❑ “Football: Osama Bin Laden could buy out a Scottish football club and our ruling bodies wouldn’t bat an eyelid.”
- ❑ “We have three governing bodies yet not one of them can be bothered running rigorous checks on anyone who wants to own a club.”
- ❑ Scottish tabloid pundit Jim Traynor in *The Daily Record* (4th December 2006).

Mr Usmanov & Arsenal Football Club: a fit & proper person

- ❑ “Controversy over Usmanov’s record has surfaced since he paid Arsenal’s form vice-chairman £75m for a 14.5% stake [rising to 21%]...In 1980 he was convicted of offences reported to include fraud, corruption and theft of state property and served six years in prison, but after the collapse of the Soviet Union he insisted the charges had been politically motivated and that he has since been formally pardoned by the Russian government. This version of events has been contested by Craig Murray, the British ambassador to Uzbekistan from 2002 to 2004.”
- ❑ Conn, D. (26th September 2007). “Hill-Wood: We do not want Usmanov here: Arsenal Chairman opposed to involvement of Uzbek”. *The Guardian*.

Arsenal Supporters Trust

- ❑ Growing in membership.
- ❑ Opposed to change of ownership – but foreign ownership is not the issue.
- ❑ Supports the Arsenal Board's policy of no dividends.
- ❑ In dialogue with the Arsenal Board about mechanisms to protect the club's independence.
 - broaden the share base?
- ❑ Asks the question, would any takeover bring new money?
- ❑ The takeovers of Manchester United and Liverpool brought no new money only but simply leveraged debt against future club income.

Enfield Town FC

- ❑ A reasonably successful Conference side (level 5). In 1999, Enfield FC's estate-agent owner, Tony Lazariou, sells the ground for housing.
- ❑ 2001 – after six different homes the supporters form a supporters' trust and then form their own team – Enfield Town FC:
 - “I hope you enjoy park football” says Tony Lazariou.
- ❑ 2003 – Tony Lazariou becomes bankrupt. He is banned from football by the Football Association.
- ❑ 2007 – the phoenix team, Enfield Town FC, continues its climb up the leagues, with average crowds of 300 at a shared ground with Brimsdown Rovers re-developed with assistance from the Football Foundation.
- ❑ 2007 – the old Enfield Town goes into liquidation.
- ❑ The future – Enfield supporters continue the painstaking job of rebuilding their club.

Criticisms of the Trust Model

- ❑ In September 2007 former England and Leeds United manager Howard Wilkinson resigns from the Board of supporters' trust-controlled club Notts. County.
- ❑ He heavily criticises the supporters' trust model saying it does not work. His principal objection appears to be that if a supporters' trust is in control then new private "investment" is deterred.
- ❑ A supporters' trust led coalition of investors had previously saved Notts. County from collapse during financial administration— is the trust model simply an ambulance service for poorly managed lower league clubs?
- ❑ 41/92 English leagues' football clubs have been in administration since 1992. On every occasion a host of creditors lose all their money.
 - the "prune juice" effect?
- ❑ In response to Wilkinson's comments one, no doubt mischievous, poster on a Nottingham website calls for one team in Nottingham – will franchising make a re-appearance in the English game after Milton Keynes Dons controversy?

“European football salary caps are worth considering - if agreed by all” (1)

- It is not often that a reasonable case can be made against free markets and in favour of wage controls and restrictions in international labour movements. But football is such a peculiar industry that it perhaps deserves special consideration. European Union sports ministers look likely to recommend imposing salary caps at the richest clubs and forcing them to field a certain number of native-born players.

How can such interference in a relatively liberalised market be desirable? Because **football** club owners do not play by normal market rules. With many proprietors driven by prestige and willing to lose money in the search for footballing glory, it is not so much the case of "may the best man win" as "may the richest man win".

Financial Times, December 1, 2006

“European football salary caps are worth considering - if agreed by all” (2)

- `As a result economic competition does not always translate into competitive sport. When a few big clubs, as happens in some European leagues, can use their billions to buy every decent player going, much of the sport's drama is lost. Salary caps are a way of trying to level the playing field and ensure the sport retains its interest. Even in free-market America salary caps in sport are common. Similar arguments might be applied to forcing teams to field at least a few players from their own countries. A borderless Europe has been great for football. But teams need an incentive to cultivate some home-grown talent.

However, the EU should certainly not impose caps from above. Politicians have no role interfering here. Any move in this direction should be conducted purely by national leagues and on a voluntary basis. Agreement would not be easy. The Chelsea's of this world would be vigorous opponents.'

Financial Times, December 1, 2006

The Price of Regulatory Inaction

- ❑ In 2001 the English Football League contemplated a change to its rules following the sale of the ground of League member Brighton & Hove Albion.
- ❑ The rule proposed that no club could change the ownership status of their registered ground without the approval of the League Board, who would insist that a funded alternative site be available.
- ❑ The proposal was voted down by club chairmen on the ground that it would affect their ability to borrow against the ground in the future!

FCUM – the Real United? (1)

- ❑ Manchester United fans see off a takeover by the BSkyB broadcasting company in 1999 after the bid is referred to the UK competition authorities.

- ❑ In 2005, following the successful takeover by the Glazer family, such was the sense of disenfranchisement of one group of Manchester United supporters, that they decided that for them the United dream had died. They decided to form a supporter-owned club, Football Club United of Manchester, or FCUM. In the words of FCUM board member Jules Spencer:
 - “One of the things that took hold of Old Trafford and all top football clubs was a distance between the supporters and the manager and players. As romantic as it sounds, 15 or 20 years ago you did feel a sense of attachment to what your football club was. You were part of it. That's where the sense of disillusionment comes from. It's not just about the Glazer thing.”

FCUM – the Real United? (2)

- ❑ Two years after they were founded FC United has been promoted twice and has started to move back up the league pyramid toward the Football league.
- ❑ Their strip is the classic red shirt, white shorts and black socks favoured by Manchester United in the 1970's.
- ❑ The club are attracting crowds of up to 3,000, mostly disillusioned Manchester United supporters.
- ❑ Ryan Giggs's brother Rhodri was one of their most popular players in the 2006/2007 season.
- ❑ In their two seasons of existence FC United have not only survived, but they have prospered.
- ❑ More importantly, it appears that a special fan culture is beginning to develop at FCUM – “It's just like the 70's”.

FCUM – the Real United? (3)

- ❑ In their drive to generate revenue in the short term to pay debt are the Glazers in danger of losing sight of the key attribute of any successful football club; the “fan equity” investment of their supporters, that special emotional bond that drives interest and so revenues?
- ❑ Critics argue that it is this special emotional bond that helped make Manchester United Football Club the extraordinarily valuable sporting brand it is today, a brand that the Glazers actually wanted to buy.
- ❑ It would be ironic if, in their rush to pay the debt needed to purchase this brand they actually succeeded in destroying the very thing that makes the brand so special, the “fan equity” in the brand of its supporters.
- ❑ Without this United is just another entertainment brand amongst many, easily substitutable.
- ❑ Only time will tell how effective the Glazers will be in taking forward Manchester United in the next stage of its strategic development. For now, they should be very thankful to Sir Alex Ferguson.

Corporate Governance Reform Agenda in the Football Industry

- ❑ Any corporate governance reform of European football would need to examine:
 - a workable salary and related financial management governance instruments (UEFA licence is an effective start).

- ❑ But also:
 - a mechanism for protecting football grounds from asset-strippers.
 - firm implementation of a fit & proper persons' test.
 - institutionalising the role of representative supporters groups' in the governance of clubs and the governing body.

The Football Industry's Real Bottom Line

- “Football without the fans is nothing”.

Jock Stein

Manager of Celtic's famous 1967 European Cup-winning team.