Original Article

Utility of financial information in managing football business model: Case from Central Eastern Europe

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Published online: April 30, 2020

(Accepted for publication: April 15, 2020)

DOI:10.7752/jpes.2020.s2175

Abstract: The study provides description of football clubs in the context of performance management theory. The research is based on a concept which can explain contemporary role of sports organization as a special business entity. The economic effectiveness of this business branch is not easy to define, as one must first identify the factors that influence it. First of all it is necessarily to understand business models of sports clubs. In the study it is assumed, that sports business operates differently between continental Europe, Asia, Anglo-Saxon countries and other world regions as literature review confirmed. There is a gap in literature studies. The business models are elaborated widely in theoretical and practical way, but concern mostly on profit-orientated companies. As this research confirmed the football clubs in Poland are not profit-orientated. The expenditure of sport clubs raises questions about its operations and effectiveness. So that the aim of the paper is to assess the utility of financial information in managing a football business model. Mostly qualitative research approach was applied in order to understand financials of football clubs. Managerial perspective on football business was included by complementary interview with a manager. The research is based on football clubs from the highest football league in Poland. The financial analysis of football clubs included analysis of income statement and a balance sheet information. The analysis outcomes reconfirmed that football is not a profit orientated business. It determines different attitudes towards management information. The study let us assume that huge part of financial information has low utility to assess football business model. Moreover elaborated interview results concluded that football business model is more social benefit orientated in Poland than profit orientated.

Key words: football, sport, business model, performance management, finance.

Introduction

Research in business model has begun from simple conceptual works towards more fine-grained theoretical explanations (see, George & Bock, 2011; Klang, Wallnöfer, & Hacklin, 2014; Zott, et al. 2011). There are three drivers of this (Najmaei & Sadeghinejad, 2014):

- Whenever a firm is established it employs a business model, therefore the business model of the firms is a fundamentally related to its formation and evolution (Pitelis & Teece, 2009);
- Business model of a firm delineates the central logic of its business and therefore is intrinsically related to the firm's business strategies and resources (Teece, 2010);
- Business model is a micro-foundation of firm's capabilities (Katkalo, et al. 2010). Hence it plays a key role in developing innovative, technological and marketing capabilities for the firm (Chesbrough, 2010) and impacts competitiveness and positioning of the firm in industries and markets (Gambardella & McGahan, 2010).

Business model delivers information to make proper choices by executives for evaluating opportunities that fit their business model and transform assets accordingly to seize them (Katkalo et al. 2010 ; McGrath, 2010). This broad view let us include all basics characteristic of football clubs business model. The research of business model can be also rooted in the resource structuring theories such as resource-based and dynamic capabilities view (Barney, Ketchen, & Wright, 2011). Since, resource structures involves tangible and intangible assets and their interactions are embedded and difficult to observe, it is possible to partially capture them in football clubs business models and measure intangible resources such as investment in human capital, value of football player or value added intellectual coefficient (Perechuda, 2016). This view is called the organizational view of business models (Najmaei & Sadeghinejad, 2014). Hence the football clubs business model in the study is described from resources perspective derived from balance sheet information and measures of intangibles resources such as partners, football players. The research answers the questions about performance captured by financial statement in comparison to decision-makers expectations. Collected and elaborated data allowed to answer general question of the business model: how does the business work? And this information is confronted with information expectations of football club executives. Research problem of the paper concerns description of football clubs in the context of performance management and measurement. These studies lead to elaborate on a concept which can explain contemporary role of sports organization as a special business entity. The economic

effectiveness of this business branch is not easy to define, as one must first identify the factors that influence it. In order to identify factors of effectiveness firstly it is necessarily to understand business models of sports clubs in chosen countries. In the study it is assumed, that sports business operates differently between continental Europe, Asia, Anglo-Saxon countries and other world regions (Palacios-Huerta, 2004). There is a gap in literature studies of the business models are elaborated widely in theoretical and practical way, but concern mostly on profit-orientated companies. Sports business often creates value for wider stakeholders groups than just owners (Senaux, 2008). It is observed that benefits delivered by sports clubs to their stakeholders mostly are intangible such as social benefits to local supporters. Thus there is still lack of knowledge in description of business models of sports clubs or sports organizations which often are social enterprises and non-profit orientated or at least in non-profit legal form such as associations or foundations (Plumley et al., 2017). Study on business models in sport sector is necessary to answer question about performance measures based on financial and nonfinancial information. Defining and specifying the economic performance in this business field is not an easy task, as it requires to identify the evaluation criteria and factors affecting that performance. Research is based on stakeholders theory in order to present specific stakeholders groups for which value is created by sports clubs performance (Senaux, 2008). The question about usefulness of financial information and financial indicators and the demand for the information is the key concept in presented study.

Research process

Chosen research is preliminary research for comparative analysis of sports business model performance. The goal of this study was to compare goals and expectations stated by manager in football industry in comparison to utility of financial information in assessing its achievements in Central Eastern Europe (CEE). The research was based on the football clubs from the highest football league in Poland. The study was conducted on the basis of financial data of the chosen sports clubs. The gathered data comes from a 5 year period (as UEFA sports ranking is based on points granted for 5 years). Moreover, the literature review of scientific research and business reports was conducted in order to choose some suitable data and to adequately interpret the obtained result. Synthesis of collected data led to discussion of utility of financial information in case of business models of football clubs in chosen sample. However, the gathered data did not allow to construct a general business model of sports clubs. Additionally an interview with manager of football federation was performed in order to find an answer for the performance expectations and goals of football clubs. Financial data were collected from period 2010 – 2014 for 11 clubs from first division league. The analysis of financial data was based on annual financial statements.

Financials of football business

In the research, 7 out of 11 clubs are those which are directly or indirectly linked to public institutions. Simultaneously, it can be observed that chosen clubs from this group are characterised by negative equity capital (table 1, figure 1), which shows their poor financial results and the necessity of their owners to make decisions about their continued activity (Code of Commercial Companies, 2000). However, these clubs do continue to exist. Local government units support and finance sports clubs, motivating it by brand promotion of local government and promotion of the region. Table 2 in this section presents the average three-year levels of debt of examined football clubs. Only four of all chosen clubs show a debt level of below 100% of asset value. An analysis of the liabilities has shown that the mean coefficient value of the debt ratio indicator from three reporting periods during the years 2010-2014 reaches 208% asset value among the researched clubs (figure 4).

Figure 1. Average values of the debt ratio indicator from three reporting periods during the years 2010-2014 with maximum and minimum value ranges

Source: own elaboration based on data from financial statements.

Collected data demonstrates the financing structure of Ekstraklasa. Despite difficult financial situation, most clubs do not go bankrupt, which is a premise for further consideration of the approach to performance measurement of these clubs. To illustrate the effects of applying indicators of financial assessment, discriminant measures used in assessing risk of bankruptcy were also employed (table 1 and table 1). Two Altman indicators were used in the discriminant analysis, for enterprises from emerging markets (EM score) and for privately held non-manufacturer enterprises (Z score). The Polish PAN-F indicator was also used in order to better present the risk of insolvency on the Polish market. This indicator has been verified by Kisielińska and Waszkowski (2010) in terms of highest efficiency of accurately determining the financial condition of companies from various discriminant models designed by Polish scientists. For the PAN-F indicator, the demarcation point of the bankruptcy risk zone is zero. A score above zero indicates a good financial condition. A score below zero indicates risk of insolvency. When applied in the case of professional Polish football clubs, this indicator shows that all the analysed cases are within the insolvency risk zone (table 2).

Table 1. Bankruptcy risk Altman indicators, average values from three reporting periods in the years 2010-2014

	Zagłębiel bin	Piast Gliwice	Lech Poznań	Legia Warszawa	Podbeskidzie Bielsko- Biala	Ruch Chorzów	Zawisza Bydgoszcz	Korona Kielce	Górnik Zabrze	LechiaGdań sk	WisłaKraków	ŚląskWrocław aw
Average debt ratio in total assets during 3 reporting years	10%	46%	78%	90%	122%	155%	171%	206%	272%	301%	463%	499%
Average 3 reporting years EM score = $6.56(X1) + 3.26(X2) + 6.72(X3) + 1.05(X4) + 3,25$	9,6	-1,3	1,2	-5,2	-2,0	-13,1	-23,5	-47,0	-30,2	-12,4	-41,0	-74,4
Average 3 reporting years Z score (for private non-manufacturing enterprises) = $6.56(X1) + 3.26(X2) + 6.72(X3) + 1.05(X4)$	6,4	-4,6	-2,1	-8,5	-5,3	-16,3	-26,8	-50,3	-33,5	-15,6	-44,3	-77,6
Insolvency risk		X	X	X	X	X	X	X	X	X	X	X
Uncertain risk												
Safe zone	X											

Source: own elaboration.

Table 2. Insolvency risk PAN-F indicator, average values from three reporting periods in the years 2010-2014

	Zagłębiel bin	Piast Gliwice	Lech Poznań	Legia Warszawa	Podbeskidzie Bielsko- Biala	Ruch Chorzów	Zawisza Bydgoszcz	Korona Kielce	Górnik Zabrze	LechiaGdań sk	WisłaKraków w	ŚląskWrocław aw
PAN-F indicator	-2,69	-13,66	-0,96	-0,09	n/a	-7,72	-12,90	-33,80	-16,70	-11,74	-20,52	-32,01
Insolvency risk	X	X	X	X	-	X	X	X	X	X	X	X
Safe zone					-							

Source: own elaboration.

Naturally, the applicability of methods of this type is very limited in regard to sports clubs. An example of these limits are the total assets, which need to be adjusted with intangible assets of players. Furthermore, negative equity capital indicates that the clubs cyclically generate financial losses, which cumulate under the previous years losses position in balance sheet. It means it is hard to find optimal value of capital structure (Giner, Reverte, 2001). Interview with manager signalized that in most cases Polish football clubs take a loan from their owners and when they are unable to service debt it is converted into equity. It raises a serious question how to interpret financial information of capital structure in balance sheet. This also limit using methods of performance measurement which rely on profit and loss results. Concurrently, it raises the question about the possibility of using methods based on income or performance methods based on value added and making use of WACC (weighted average cost of capital). This study investigates how many cases have a positive value of calculated WACC without estimation of market value of equity (companies are privately held). A calculation has proven that 6 out of 11 examined clubs show a positive WACC (equity calculated based on book value), the

remaining cases being negative. On the other hand, using marketised WACC (positive in most cases) for EVA (economic value added) calculations still resulted in negative values of this indicator in all analysed cases (figure 2).

Figure 2. Average Economic Value Added during three reporting periods in the years 2010-2014 with maximum and minimum value ranges (millions of PLN)

Source: own elaboration based on data from financial statements.

Football clubs are also specific in terms of financial information in asset structure. The majority of researched clubs (with the sole exception of ZagłębieLubin club) do not possess their own sports infrastructure, but instead use facilities belonging to local government units through lease, tenancy, or usage agreements. As a result, tangible fixed assets usually constitute a small percentage of the asset structure of football clubs, since they consist mainly of small investments in third-party facilities, vehicles, and equipment.

In general, it is current assets that form the bulk, mostly in the form of receivables, cash, and inventories of equipment and goods (merchandise, club souvenirs). Among fixed assets, the most important to mention are players acquired through transfer. As mentioned previously in this paper and in literature, players constitute a key value factor of a football clubs and are the potential of creating and increasing club value (Kotáb, Scholleová, 2011; Plumley et al., 2017; Perechuda, 2019). In financial reporting one can find the following positions related to football players transfers:

- 1) balance sheet - information pertaining to:
 - a. player registration rights acquisition assets,
 - b. transfer receivables,
 - c. transfer liabilities;
- 2) profit and loss account - information pertaining to:
 - a. depreciation of player transfer acquisition costs,
 - b. sale and acquisition revenues and costs;
- 3) cash flow account - information pertaining to:
 - a. player registration rights receipts,
 - b. player registration rights payments.

The terms of player contracts are regarded by football federations and unions as confidential, therefore clubs do not publish them in financial statements. The only items which allow to identify the effects of these contracts are classified above. Assets resulting from player transfers are a key component of the overall assets of football clubs (included in intangible assets), that is subject to depreciation, like tangible fixed assets. Depreciation of player assets is an important part of the costs of a football club, and profits and losses on sale or acquisition of players may have a significant effect on financial results (Carrasco, Gallego, 2011). Figure 3 illustrates the average three-year intangible assets share in total assets of football clubs. The average level reaches 25% of the book value of the club's assets.

The very low level of this indicator in ZagłębieLubin's case is a consequence of the fact that it lists a stadium in its asset structure, which is a disturbance in that structure and lowers the ratio of intangible assets. By contrast, the highest level of this indicator was manifested by the club Zawisza Bydgoszcz. The club reached this level due to a generally low level of assets overall, and as a club that advanced to Ekstraklasa during the researched period, it has made substantial investments by acquiring players for this level of sports league.

Figure 3. Average ratio of intangible assets from three reporting periods in the years 2010-2014 with maximum and minimum value ranges

Source: own elaboration based on data from financial statements.

It is worth noting, that players of a club are not necessarily players acquired by transfers. A club also has players that are alumni of the club, and those that joined the club by free transition as they were not bound by a contract with any other club, or they are players that are loaned from another club. The information regarding club alumni and loaned players is not visible in the data presented under intangible assets in the balance sheet. They can be identified through the profit and loss account and in payroll. Moreover, the key intangible resources of a club also include the coaches and managers employed by the club. In these cases the identification in financial statement is also possible by looking at payroll expenses. This is an argument in favour of applying the method of intellectual capital valuation as it was already analysed in other studies based on football sector (Yasaret *et al.*, 2015; Shareef, Davey, 2005).

The level of salaries and its share in revenue may be one of the factors showing the strategy of a club. The average level in the researched clubs reached 86% (figure 4). This means that on average, 86% of sales revenue is appropriated for salaries, a significant portion of them being player salaries. It appears alarming, that among eleven examined clubs, three of them had salary levels near the level of achieved sales revenue, and one club has significantly exceeded that level.

Figure 4. Average ratio of salaries in sales revenue from three reporting periods in the years 2010-2014 with maximum and minimum value ranges

Source: own elaboration based on data from financial statements.

Payroll expenses make up on average 86% of the level of sales revenue. When payroll expenses are collated with the total costs without depreciation¹, they reach approximately 54%. Furthermore, it can be noticed that there are no serious fluctuations of this indicator in clubs (with the exception of Piast Gliwice). The clubs maintain this indicator at a stable level.

Figure 5. Average ratio of salaries in overall costs from three reporting periods in the years 2010-2014 with maximum and minimum value ranges
Source: own elaboration based on data from financial statements.

The presented analyses clearly indicate that costs related to employing a team of players have considerable effect on the financial situation of football clubs. The players themselves are a key asset of a football club and its main cost driver (Amir, Livne, 2005). Moreover, players carry their image with them into the club, as well as their relational resources, all of which is a crucial in building club value, but are not directly reflected in financial statement.

A profit and loss account position that can serve as the basis for building indicators of value measurement can be the sales revenue. This position is not disrupted by losses from previous years, contains information about the performance of the club's main activity, and can be comparable between periods and clubs. Figure 6 demonstrates the value results of the revenue to asset ratio for football clubs.

Figure 6. Average revenue to assets ratio from three reporting periods in the years 2010-2014 with maximum and minimum value ranges
Source: own elaboration based on data from financial statements.

¹It makes possible to compare entities at different investment stages.

Revenue efficiency of assets is one of the indicators showing positive and high levels for the football clubs. In eight out of eleven club cases, ratio is higher than asset level. One of the key elements of assets are the players. This is demonstrated in the following section of this paper. Except for players in clubs that do not possess their own stadiums, there is no indication of other relevant items in fixed assets. At the same time, players are the main source of costs in football clubs. Their salaries, as the research in this paper has shown, amount to 54% of costs (figure 5).

Football manager perspective

Complementary to financial analysis, interview with football manager was performed. Respondent was asked couple of questions. First what are the most important goals for football clubs in Poland. Respondent chose three most important goals:

- promotion of football in general (for the whole population as supporters),
- enacting of physical activity (again by football and mostly towards young people),
- clubs should be orientated on high quality sports trainings (in order to develop sports academy, developing talents, achieving sports results.)

Hence there is no reference to financial situation of the clubs which is presented in previous section. So the first impression is that sports goals are above business and financials. But additionally the respondent has to evaluate also which area of football clubs activity in Poland is the most important. The survey was constructed as a Likert scale selection of chosen performance measures (KPI) in four areas: administration and human resources, business area, sports area and social area. Chosen areas of performance was elaborated on previous literature review presented in introduction section.

Table 3. Key areas of football sector in manager perspective

Performance area	number of KPI evaluated (n)	mean	SD	coefficient of variation
administration and human resources	22	3,73	0,88	24%
business	15	3,80	0,68	18%
sports	10	3,80	1,03	27%
social	7	4,14	0,90	22%

Source: own elaboration

Social performance area achieved highest average score (4,14) so we can assume it is the most important area in the manager perspective. Of course the research is limited only to one respondent as representative of football federation in Poland. The interview results is only complementary information to the whole research process. In case of business area average importance of measures was at the level of 3,8 and the most important measures (with “5” score) were revenue diversification and long-term sponsorship cooperation. The lowest importance in business area was achieved by such measures as: debt ratio, costs limits, financing per football player, tickets sale.

Discussion

Considering the above, two conclusions come to mind:

- players as assets that comprise 25% of total assets absorb over 86% of club-generated sales revenue for their functioning,
- players affecting revenue, cost and balance sheet items should be taken into account in the process of club value measurement and to construct performance management system.

It appears justified to regard revenue as one of the criteria of performance assessment. It follows, that other financial information containing profit and loss items, such as profit, in most cases exhibit negative values (table 1 & 2). A measure designed this way could be compared with a general, market indicator, and then show information concerning the situation of the club in a given area.

Nevertheless, a question needs to be raised regarding chosen study object: when financing a football club, does owner expect a minimum rate of return, which the club must directly secure for them in the form of interests paid or generated cash flows? It results from the analysis of financial data, that investors who decide to finance a football club in Poland have no reason to expect the club to generate capital return from the invested capital. This is corroborated by the data gathered and presented in this study (table 1 and 2, figure 2).

The benefits received by the owner, many of whom are local government units, are different from profits. Private investors also contribute their capital expenditure to the club, often acting as a sponsor and expecting to build their personal image or the image of their business (Garcia del Barrio et al., 2016). This amounts to the club generating intangible benefits for its financing entities. The interview results confirmed low attention of football managers to such aspects of football business model as: sources of financing, debt, costs (including salary).

Conclusions:

Sport as a dynamic sector is garnering more and more interest, as well as partaking in the economic growth of a country. Sports clubs has long ago stopped being merely a sport. The carrying values of the largest European football clubs run into hundreds of millions of euro (Plumley et al., 2017). Its relations and cooperation with corporations and public institution are developing since many years. This means that the football business has become a fully-fledged part of the economy. The expenditure of sport clubs raises questions about its operations, value creation and effectiveness. So it is important to assess utility of financial information of football industry. The study let us assume that huge part of financial information has low utility to manage football business model. Moreover performed interview results show that football business model is more social benefit orientated in Poland than profit orientated. Partially it was also observed by Szymanski (2012). In comparison to other studies we can observe differences between Polish football as country from CEE and top football leagues as German, Italian, Spanish, English or French. It does not mean that in this top leagues football clubs does not have financial difficulties but definitely their models are based on other source of financing than in Poland and it needs other information to manage these businesses.

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