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# Introduction

*Sean Hamil, Jonathan Michie and Christine Oughton*

Over the last ten years, British football has been transformed. Up until the early 1980s it was largely a loss-making social institution with clubs privately owned by local benefactors. As we approach the millennium it is increasingly being incorporated into the commercial 'leisure' sector. (Football clubs are listed on the Stock Exchange under 'Leisure, Entertainment and Hotels'). Ownership by institutional and multi-national investors is becoming the norm as private owners sell out. The large clubs have been transformed into highly profitable purveyors of the full gamut of leisure-related product lines. Critical to this transformation, televised football has become *the* key weapon in the battle for viewers by satellite, cable and digital TV (including pay-per-view).

Amidst all this change the role of football as a social and cultural institution in Britain, and indeed the world, has remained largely intact. But tensions between the new commercialism and football's social purpose have become intense. The institutions of corporate governance which served football adequately when it was a loss-making passion catering to 'fans' whose core interest in the team was in its expression as a vehicle for social solidarity, a passion we term 'fan equity' (see chapter 1), are no longer adequate to effectively manage the extraordinary commercial pressures unleashed in the industry.

Football has been extensively analysed from a sociological perspective, most notably with regard to the football hooligan phenomenon. As the industry has become more profitable it has been subject to a growing body of analysis from a conventional economic and financial perspective. While important, none of this work to date has really succeeded in explaining the current dynamics of the industry. The existing literature generally lacks the necessary breadth to encompass an understanding of either the influence of 'fan equity', or an appreciation of the importance of maintaining and enhancing what we term 'positive league balance' (see chapter 6). None of the existing work, therefore, really gets to the heart of why it is so necessary that the game be protected and developed through regulatory intervention (although the Football Task Force has done useful work, on which see chapter 3). Neither the UK football industry nor the sports markets generally, have been analysed to any extensive degree with regard to corporate governance issues and their relationship with 'fan equity'. This book sets out to fill that gap.

Birkbeck College's Department of Management has established a research programme on how regulation of the football and broadcasting industries might best be reformed to meet these new challenges. A successful conference in February 1999 brought together leading academics, policy-makers and analysts to discuss future possibilities for the governance of professional football. This book brings together the results of these discussions.

Critically, the key theme of all the contributions is that there are alternative governance structures to those currently being employed in the headlong drive toward greater commercialisation of the game. Plcs are certainly not the only option, and may not even be the most appropriate. The various alternative structures discussed in the following chapters (especially 8–13) are more in tune with the historical roots of the game in local communities, and more appropriate in terms of securing both the game's financial future and its critical role as a cultural and social asset.

The opening chapter by Sean Hamil ('A Whole New Ball Game? Why football needs a regulator') sets the scene by outlining the central importance of structures of corporate governance in determining the success, or otherwise, of the industry. This is because of the 'social' character of the good which

football provides. He argues that the value of this 'social' element (described as 'fan equity') to the financial success of clubs is not fully appreciated by the current owners or regulators (the Football Association) of the sector.

He begins by explaining the critical role of regulatory intervention through the recommendations of the 1990 *Taylor Report* and significant public subsidy for ground rebuilding via the Football Trust, in reforming the industry in the early 1990s, and how this laid the ground for increased TV monies. He describes the chronic problems of financial and operational mismanagement that characterised the game's administration up until the early 1990s and which still persist at many clubs.

He then examines the subsequent movement by club owners to capitalise on the increased value of clubs, firstly by floating them on the Stock Exchange and, in what looks like the second wave in the development of a market in corporate control, the attempted sale of clubs to media conglomerates. Chapter 1 therefore argues, in a theme developed in many of the subsequent chapters in the book, that without effective regulatory intervention, current developments threaten to destroy the central character of the game by leading to a fragmentation of the traditional league structures. Instead, an élite of major clubs, retaining no real link with the communities from which they sprung, may break away. He argues that the failure of the Football Association (FA) to meet its responsibilities as an effective regulator has been an important facilitating factor in this negative development.

Hamil concludes by arguing that regulatory intervention has dealt with the ground safety issue. Significant further regulatory intervention is required to address the wider corporate governance issues thrown up in recent years by the headlong commercialisation of the game.

David Conn's 1997 best-selling book *The Football Business* (Mainstream) was the first publication to present a sustained critique of how increasing commercialisation was in danger of destroying the distinctive qualities of football as a key national cultural asset. In chapter 2 ('The New Commercialism') he brings the story up to date. Conn begins by setting out the history of the game from its earliest inception to the present day. He outlines how, while initially football clubs in the late Victorian and Edwardian era were set up primarily as sporting and community institutions, the explosion in the popularity of the game attracted a breed of businessmen bent on profit, in not dissimilar fashion to today. The same processes of consolidation were set in train. However, on that occasion, the Football Association and Football League intervened decisively to protect the sporting character of the game. The introduction of the FA's Rule 34 explicitly barred business people from making money out of the game via dividends or salaries, thus dramatically reducing the value of clubs as speculative business ventures. An extremely equitable form of financial redistribution of gate receipts, later extended to TV revenues, was introduced which served to maintain a high level of competitive uncertainty in the game.

Chapter 2 then outlines how a culture of amateurishness combined with parsimony with regard to ground improvements developed among clubs as a breed of director intent on securing local prestige at little cost was attracted. This culminated in the stadium disasters of Bradford, Heysel and Hillsborough. Conn notes that a supreme irony of the *Taylor Report* is that while it is most remembered for its recommendations on improving ground safety – the implementation of which has revolutionised the quality of British stadia – it also made a number of other recommendations aimed at preserving the unique cultural status of the game via the reform of its governance and administrative structures, which were never acted upon.

Conn argues that the failure to follow the wider remit of Lord Justice Taylor's recommendations has allowed a situation to arise whereby, with the influx of TV monies, football has been made

increasingly attractive to a new generation of acquisitive businessmen, but on this occasion there has been no decisive regulatory intervention to prevent rampant commercialisation. He argues that fans have been increasingly exploited in a rapacious fashion. And that the erosion of redistributive rulings, when combined with this commercialisation, has set in train a powerful process of consolidation which is likely to lead ultimately to the breakaway of leading clubs from existing structures. He explains the manner in which the FA's Rule 34 was effectively side stepped, and the poverty of vision of the FA itself in the face of these developments.

Chapter 2 concludes by arguing that there must be a restoration of effective mechanisms for financial redistribution among clubs and a return to some form of social ownership structure. Conn argues that football needs a single executive body to regulate the game.

In chapter 3 ('Thinking the Unthinkable or Playing the Game? The Football Task Force, New Labour and the reform of English football') Adam Brown outlines the background to the formation of the government's Football Task Force. He sets out its aims and objectives with regard to the governance of football, and assesses both its progress to date and the prospects for meaningful change in the governance of football in England. Although writing in a personal capacity, he brings to bear his unique insight as a member of the Task Force Working Group. While at the time of writing (May 1999) the Task Force's work is not yet complete, he nevertheless offers an intriguing analysis as to the possible direction its findings, if taken up by government, might lead.

Brown explains the origins of the Task Force's remit in the Labour Party's pre-1997 election policy document, *Charter for Football*. While on the face of it the influx of TV money meant that financially football had never had it so good, the *Charter* tapped into a popular perception of a game mired in sleaze (the bung scandal), rocketing ticket prices, merchandising policies which appeared to exploit fan loyalty, a continued lack of representation for fans at all levels of the game and governing bodies seemingly incapable of providing leadership in the face of this hydra-headed challenge. He explains how, with the setting up of the Task Force in July 1997, the original broad sweep of the *Charter's* recommendations were incorporated, but in heavily diluted form. Critical omissions were the lack of any investigation of new formulas for administering the game and the associated reform of the FA, and any investigation of TV's role in football.

He documents how the Labour government's concern that the Task Force proceed on the basis of consensus served to critically complicate its work, as inevitable tensions erupted, most notably in the resignation of the Professional Footballers Association (PFA) representative Gordon Taylor after Task Force chairman David Mellor criticised players' attitudes to community work in a newspaper article.

Chapter 3 concludes by arguing that, while it is not possible to predict what the outcome of the Task Force's deliberations will be prior to the completion of its work, it nevertheless seems clear that some form of government-appointed regulator would be the logical outcome from the substance of the Task Force deliberations.

In chapter 4 ('The BSkyB Bid for Manchester United Plc') Simon Lee analyses the background to BSkyB's 1998 bid for Manchester United against the backdrop of developments in the political economy of football since the Hillsborough disaster. Lee argues that Manchester United in many ways represents a high-water mark of a financial model of corporate governance that has pervaded English football during the 1990s. For the future, the pursuit of short-term shareholder interest which this has involved needs to be replaced with an alternative stakeholding model of corporate

governance which would recognise the status of supporters as major stakeholders in the English game.

Reaction to the BSkyB bid from within English football and without is assessed in the context of the impact of increasing TV revenues and the widening gap between the richest and poorest clubs in English football. Chapter 4 argues that neither the competition authorities nor BSkyB would have needed to have been involved in the future governance of English football, had the FA and the Football League launched the fundamental reassessment of English football which the *Taylor Report* called for in 1990.

Chapter 5 ('Football and Broadcasting and the MMC Case') by Jonathan Michie and Christine Oughton examines the reasons why BSkyB's attempted acquisition of Manchester United was blocked by the Monopolies and Mergers Commission and the Secretary of State for Trade and Industry. The chapter starts by considering the 'peculiar' nature of the football industry – the 'brand' loyalty of the fans, the links between clubs and their local communities and the collective nature of the league system which combine to make the industry particularly vulnerable to anti-competitive behaviour and raise a number of public interest concerns. The analysis then turns to the anti-competitive effects of the attempted acquisition on the broadcasting and media markets. BSkyB's attempted take-over raised three separate areas of concern regarding anti-competitive threats and restrictions on competition. Firstly, it would have led to the market for watching Manchester United at the ground and the market for watching Manchester United live on pay TV being controlled by a single company. This opens up the possibility that the company could raise prices at the ground with the intention of shifting the demand from those fans priced out of the stadium on to its other market, Sky Sports. Secondly, if the bid had been successful it would have distorted the bargaining process for rights to screen Premier League matches, creating restrictions on competition. Finally, the attempted acquisition would have weakened the competitive position of BSkyB's rivals and strengthened BSkyB's already dominant position in pay TV. The attempted take-over also raised the possibility of BSkyB subsidising Manchester United in order to 'buy' success on the field. If the BSkyB bid had been successful and was followed by other broadcasters acquiring Premier League clubs, cross-subsidisation would have exacerbated growing inequality and competitive imbalance. The MMC broadly accepted these points and recommended that the merger be blocked on the grounds that it would have reduced competition in broadcasting and adversely affected the quality of English Football. Michie and Oughton argue that this decision needs to be built upon, firstly to prevent any other media company-football club mergers, and also to prevent greater inequality of wealth between clubs by the uneven distribution of broadcasting revenues and the over-commercialisation of the game generally.

Chapter 6 ('Revenue-sharing from Broadcasting Football: the need for league balance') by Jeanette Findlay, Bill Holahan and Christine Oughton, focuses on the impact of income from live TV broadcasting on league balance under different systems of league organisation and regulation. The chapter looks at three interrelated aspects of live television broadcasting: firstly, the motives for revenue-sharing and the impact of the current rules for revenue-sharing on league balance; secondly, the effects of a move away from the current system of collective league bargaining to a system where each club sells the right to broadcast its matches individually; and finally, the incentives for revenue-sharing in a system of vertical integration, where all aspects of a club's activities – from the pitch to the television screen – are owned and controlled by a broadcasting company.

The impact of broadcasting revenues takes on particular significance at this time as debates about the future organisation of football are taking place against the backdrop of the case brought by the

Office of Fair Trading (OFT) against the Premier League in the restrictive practices court, and also the government's April 1999 blocking, on the recommendations of the Monopolies and Mergers Commission (MMC) inquiry report, of the take-over by BSkyB of Manchester United.

The authors argue that all of these aspects of football organisation and regulation are inextricably linked and therefore any attempt to reform the current system of regulation needs to deal simultaneously with rules regarding the sale of broadcasting rights, revenue sharing and ownership structures. They conclude that there is an urgent need to examine the impact of broadcasting revenues on league balance (and league fragmentation) under different distribution rules, and systems of corporate governance in football more generally.

The question of the valuation of players' contracts in club financial balance sheets and annual accounts is addressed by Jonathan Michie and Shraddha Verma in chapter 7 ('Is Paul Ince an Asset or a Liability? Accounting and governance issues in football'). Following new regulations requiring football clubs to include players as assets in the balance sheet, the authors discuss the issues involved. Under the new rules, players are to be classified as intangible assets for accounting purposes and the chapter suggests that there are indeed strong arguments for so doing. In particular there is a danger that clubs may be undervalued if players' contracts are not included, thus leaving them vulnerable to asset-stripping take-overs.

Chapter 7 also considers other governance issues, arguing for greater representation for small shareholders. This is particularly crucial in the event of a take-over attempt. Most small shareholders are fans who have usually bought shares for reasons of emotional commitment rather than just a crude calculation of financial gain. This reflects the particular status of football clubs as social and cultural assets. The authors argue that prospective buyers should have to demonstrate that any take-over is in the public interest. Likewise shareholders should not be forced to sell against their will, as currently happens when 90 per cent of the shares in a company are acquired.

In chapter 8 ('Whose Game is it Anyway? Stakeholders, mutuals and trusts'), Jonathan Michie and Shay Ramalingam argue that mutual organisations are effective in removing stakeholder conflict. This has been demonstrated in particular in the financial services industry in the form of mutual assurance firms and building societies. Michie and Ramalingam argue that this form of organisation would suit the culture, ethos and objectives of football clubs and should be encouraged. Short of mutualisation, clubs such as Barnsley Football Club in Britain and the Green Bay Packers in the US are at least examples of widespread local and fan ownership. The chapter discusses how fan involvement might be institutionalised through the progressive transfer of shares to Trust status.

The subsequent chapter by Anne Bourke ('The Evolution of Irish Plc Co-operatives: lessons for English football clubs') considers possible alternative ownership structures for football clubs in the light of the experience of dairy co-operatives in Ireland. While on the face of it there are major differences between the dairy and football industries, they do share two key characteristics. Like football clubs they play a major role in providing social cohesion, in this case in rural areas in the Republic of Ireland, by guaranteeing a market for their farmer-owners' produce. And in the early 1980s this industry, like football, was regarded as under-capitalised. Chapter 9 explains how the dairy co-operatives squared the circle of maintaining co-operative ownership by their farmer-suppliers with raising capital to fund modernisation and expansion in a competitive marketplace by adopting a hybrid structure of co-operative plc status. Stock-market-quoted subsidiaries were created with full plc status but remained under majority control of the dairy co-operatives and their farmer-owners. This co-operative/plc status thus served to protect community ownership rather

than serving as a vehicle for destroying it, as has happened in the case of football in the UK. Bourke argues that it is not too late for football clubs to learn from this example.

In chapter 10 ('Modern Corporations and the Public Interest'), Rob Branston, Keith Cowling, Nestor Duch Brown, Jonathan Michie and Roger Sugden consider the controversial issues of corporate governance from the broader perspective of the democratic deficit that characterises most large corporations. An analysis of large corporations across a range of business activities shows that there is a widespread problem of hierarchical decision-making that tends to serve the narrow interests of an élite few. The issue of who takes the key decisions, and in whose interests, takes on particular significance with the attempted take-over of Manchester United by BSkyB and the emergence of other media groups showing an interest in English soccer clubs. The authors argue that if corporations are to be governed in the 'public interest', the governance process needs to be characterised by more participation and greater democracy. They suggest that this might be achieved by a regulator for football with responsibilities that would include monitoring the activity of clubs and their controllers to ensure effective representation of the public interest in strategic decision-making.

Chapter 11 ('Supporter Representation on the Board: The Case of Northampton Town FC') by Brian Lomax, chairman of Northampton Town Supporters Trust and elected director of Northampton Town Football Club, discusses how and why the Trust was formed in 1992. Following the launch of the Trust and its involvement in running the club, average gates have risen from around 2,000 to over 6,000 per match. There was also a marked improvement in the club's performance, with two Wembley play-offs and promotion to the Second Division of the Nationwide League. Off the field, the Trust has fundraised and paid over £90,000 into Northampton Town FC. The Trust owns over 7 per cent of the total shares issued. It was also instrumental in cementing a three-way partnership between the club, the Trust and the local authority to build a new stadium with award-winning facilities for disabled access. The experience at Northampton Town has been endorsed by the Football Task Force and paves the way for supporter involvement to become the norm rather than the exception in football.

In chapter 12 ('The Struggle for Democracy at Barcelona FC'), four members of L'Elefant Blau (The Blue Elephant) – Armand Carabén, Alfons Godall, Joan Laporta and Jordi Moix – outline the struggle by supporters to maintain the democratic traditions of Barcelona Football Club. In recent years, Spanish football has undergone a deep transformation as the vast majority of clubs has been transformed from non-profit associations to private corporations. Today, only four professional football clubs out of the 42 playing in the national Spanish leagues are not corporations. Barcelona Football Club (or 'Barça' to its friends) is one of them. The Blue Elephant is an association of Barça fans that was established in 1997 with the aim of democratising the club and preserving its original status as a non-profit sports association. Chapter 12 documents the erosion of the traditional democratic rights of club members that has occurred in recent years. The Blue Elephant aims to reinstate and enhance the club's democratic tradition and strengthen its ties with the local community to ensure that Barça is not run along narrow commercial lines but rather serves the broader interests of supporters.

The book concludes with a discussion by Jonathan Michie and Andy Walsh of a range of ownership and governance options for football clubs ('What Future for Football?'). Chapter 13 begins by explaining the catalytic effect of the 1998 announcement of BSkyB's attempt to take over Manchester United in crystallising fears among concerned fans about the effectiveness of existing structures. Michie and Walsh outline how a strategy by individual businessmen in controlling positions at several clubs, notably Martin Edwards at Manchester United, has seen the legal status of

clubs move from that of quasi-public bodies (as statutorily embodied in the FA 's Rule 34), to decisively privately owned businesses (through the creation of holding companies), enriching these same businessmen in the process.

Chapter 13 demonstrates that the current regime of regulatory oversight, as administered by the FA, has been inadequate in the face of these developments. Indeed, to some extent the FA could be said to have collaborated in creating many of these problems. The authors then outline a range of alternative ownership structures for clubs, most notably trust status, and discuss how these might be achieved. This final chapter concludes by calling for government intervention to facilitate the creation of such structures. Michie and Walsh argue that this agenda is not only necessary to meet the remit that the government itself gave to the Football Task Force, but is also necessary for achieving other key objectives of government, most noticeably the tackling of social exclusion – a process dramatically illustrated at many football grounds by the pruning out of low income supporters by high ticket prices.

There is clearly a problem. Tony Blair was quite right in 1995 to express concern:

I worry that a game in which one individual is deemed to be worth £7 million and whose club must raise the money with ever more lucrative and exclusive television deals, merchandising and expensive seats, is a game which may lose touch with its roots. I worry that fans are taken for granted. I worry that the television deals are ignoring the smaller clubs which desperately need support, and creating a class of bigger clubs that becomes ever more voracious in its quest for success. I worry, too, that the dividing line between marketing and exploitation may have been crossed amid the plethora of ever-changing strips.

The subsequent chapters demonstrate that such fears are indeed well founded. In what follows, the various authors outline the necessary solutions. It is to be hoped that these ideas will now be acted on by the government, by the game's regulators and by the clubs.