Football Governance Research Centre

The State of the Game

The Corporate Governance of Football Clubs 2005

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The State of the Game

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We would also like to thank Brian Barwick, Chief Executive of the FA for contributing the Foreword to this year's Report, and Lars-Christer Olsson, Chief Executive of UEFA for writing the Preface.

Preface

by Lars-Christer Olsson, Chief Executive, UEFA

For the first time in its history, UEFA has produced a detailed, formal, written strategy for European football. The strategy – *Vision Europe* – was approved at the UEFA Congress in Tallinn earlier this year, and defines how UEFA plans to shape the direction and development of European football over the next decade.

One of the key points that transpired was that, in the past, UEFA, like many sports governing bodies, tended to react to events rather than shape them. As we strive for a better future, we made a conscious decision to deal with the root causes of the problems in European football – rather than to keep reacting to the symptoms, when it is often too late. If you trace those symptoms to their cause, you invariably arrive at the question of governance – governance at all parts of the football pyramid, from the UEFA level, to our members the national associations, down through the leagues, the regional (county) associations and the individual clubs themselves.

Rather than always reacting, camped outside our own penalty area as it were, it should be football's needs setting the agenda – not state regulators, broadcasters, sponsors, lenders, or other stakeholders from outside the football family, no matter how important and necessary they may be.

UEFA has therefore aimed to grasp the regulatory nettle by introducing new initiatives such as, for example, the UEFA Club Licensing System and the new sports rules to encourage local trained (homegrown) players. The Club Licensing System has now been revised and made tougher, especially in the financial area, based on its first year of operation and we are already beginning to see the benefits across Europe. The local trained player sports rules will come into force from next season, and we hope that they will help to start clawing the agenda back towards football by encouraging professional clubs to focus more on training and on giving their young players – regardless of nationality – a chance. And, depending on the permanent consultations that we maintain with the different football stakeholders, there will be more measures to come.

Because of this direct interest that we have in governance issues, we are monitoring with great interest the various developments in England and the UK, such as the Burns' Report and the incredible growth of the Supporters' Trust and wider organised fans' movement.

For all of these reasons, and more besides, I am delighted to have been asked by the Birkbeck Football Governance Research Centre to kick off this year's *State of the Game* Report. We in football need to take responsibility for our own affairs, to set the agenda ourselves, and to make sure that we run football properly. And when I say '*we*', I mean all those who participate in and love football – as well as those, like UEFA and The FA, who exist to promote and govern the game at all levels. As history has proven, if 'we' do not take the responsibility to set the agenda and to run our own game ourselves – others will do it for us.

Lars-Christer Olsson
November 2005

Foreword

by Brian Barwick, Chief Executive, The FA

In the Foreword to the 2004 *State of the Game* report, the independent Chair of the FA's Financial Advisory Committee, Kate Barker wrote about the increasing importance of good governance within football. Having accepted the honour of becoming the Chief Executive of the Football Association shortly after the publication of last year's Report, I can concur that governance is of huge importance to the game.

The issue of governance covers a broad spectrum of areas such as regulation, corporate governance and best financial practice. The need for good governance is true for companies generally, as illustrated by some high-profile casualties in recent years, but is also true in football. The FA has started to look at its own corporate governance by asking Lord Burns to review the FA's own structure and decision-making process. The FA now has the task of looking to implement his well-publicised recommendations, to which I will be devoting time and energy in the coming year.

The need for good governance at football clubs is now greater than ever, as the consequences of failure are grave. Although a relatively recent recruit to The FA, I have spent over 25 years working in and around the sports industry and followed football's commercial explosion closely. There have been some obvious major benefits from football's broadcasting windfall - the English game, its teams and stadia have been transformed - but we need to consider the negative consequences, and where the game goes next. There are grounds for optimism.

The FA's Financial Advisory Committee continues to make progress. Some of the governance successes of recent years have either emanated from or been guided by that Committee; these include the introduction of a 'Fit and Proper' test for directors of clubs in the FA Premier League, Football League, Football Conference, Isthmian, and Southern and Northern Premier Leagues, and UEFA Licensing for clubs with ambition of entering European club competitions. They continue to work on this difficult area, for instance by looking to introduce a club guide to governance which will give clubs helpful suggestions depending on what type of corporate entity they have chosen to adopt.

The impact of Supporters' Trusts is another development of recent times. Many trusts are proving to be a stabilising influence and an important mechanism for improving governance and bringing benefits to supporters, clubs and their communities. I am determined to improve The FA's dialogue with football fans and Supporters Direct is integral to that.

Finally The FA also recognises the importance of the annual *State of the Game* survey and its contribution to monitoring governance standards and helping to spread best practice. Keeping the subject at the top of the game's agenda is crucial and this year has seen the largest number of survey returns ever from FA Premier League and Football League clubs. In addition, the survey has been extended to cover the Conference North and South, I hope in recognition of the strength in depth of the English game.

I am delighted to welcome the fifth annual *State of the Game* report.

Brian Barwick
November 2005

Glossary of Terms

Annual General Meeting (AGM): a company gathering, usually held after the end of each fiscal year, at which shareholders and directors can discuss the previous year's performance and the outlook for the future, directors are elected and other shareholder concerns are addressed.

Alternative Investment Market (AIM): a market regulated by the London Stock Exchange, but with rules not as strict (or expensive) as those on the main stock exchange. In particular, there is no minimum requirement for the proportion of shares that must be traded publicly.

Annual Report: an audited document issued annually by all publicly listed companies to their shareholders. Contains information on financial results and overall performance of the previous fiscal year and comments on future outlook.

Articles of Association: supplementary information to the Memorandum setting out in greater detail the internal administrative rules by which the company is to conduct its business.

Audit Committee: a committee recommended in the Combined Code for establishing formal and transparent procedures regarding financial arrangements.

Auditor: an accountant who audits the company accounts.

Authorised Share Capital: The amount of the company's share capital.

Board of Directors: the collective group of individuals elected by the shareholders (and in some cases appointed by the Board) to oversee the management of the company.

Burns Review: An independent review of the internal organisational structure of the Football Association, undertaken by Lord Burns. The review involved extensive input from stakeholder bodies in the football industry, with the final report published in August 2005 making recommendations concerning the structure of the FA.

Customer Charter: requirement set by both Football Association Premier League and Football League that each club will have a written charter in which they set out club policy with regard to ticketing, merchandise and relations with supporters, season ticket holders, shareholders, sponsors, local authority, etc. A copy of the charter should be publicised by the club.

Combined Code: a set of principles of good governance and good corporate practice incorporated into the listing rules of the London Stock Exchange. The Combined Code was introduced in 1998 and since then a number of reviews have provided additional guidance on implementing the code (Turnbull 1999, Smith 2003, Higgs, 2003). In 2003, the guidance and suggestions of these reviews were incorporated into a revised Combined Code 2003, which came into effect for reporting years beginning on or after 1st November 2003.

Companies House: the registry for incorporated companies.

Company Law: the system of legal structures to regulate companies and their activities.

Company Law Review: an independent review of company law with the aim of developing a simple, modern, efficient and cost effective framework for carrying out any business activity in Britain.

Company Limited by Guarantee: a company structure offering limited liability for its members and defined responsibilities for its directors.

Company Minute Book: a book containing all the minutes of proceedings of any general meeting of the company, kept at the company's registered office and open for inspection by any member without charge.

Co-operative: governing structure owned and run jointly by its members. Also called a Mutual.

Corporate Governance: The way in which companies are run, including the relationship between the shareholders, directors and management of a company.

Director: A person elected by shareholders to serve on the company's board of directors.

Disclosure: The public dissemination of material or market-influencing information.

Enterprise Governance: Enterprise Governance combines *conformance* with *performance*, where conformance is related to corporate governance and performance is concerned with business governance, resource utilisation, strategy and value creation (IFA, 2004).

Extraordinary General Meeting (EGM): Shareholders' meeting called by the directors or shareholders representing not less than one tenth of the paid up capital carrying voting rights.

Executive Director: A member of a company's board of directors who is also an employee of the company.

FA: Football Association.

FAPL: Football Association Premier League

FC: Football Conference

Football Creditor Ruling: A ruling which defines a special category of preferential creditors ("the football creditors") who must be paid in full in any case of football club insolvency, if the club is to maintain its membership of its league.

FRC: Financial Reporting Council

FSA: Financial Services Authority

Higgs Report: a review of the role and effectiveness of non-executive directors, written in 2003.

Independent non-executive Director: a non-executive director who is independent from the company and other directors. For a non-executive Director to be independent they must meet certain criteria, including that they should not be affiliated with the company in any other capacity, and they should not have had an association with the company for more than 9 years.

Industrial and Provident Society: a form of governance structure built on not-for-profit, democratic and community benefit principles which is registered with the Financial Services Authority (FSA)**.** Also called a mutual**.**

Insolvency: a state in which a company cannot pay its debts as they fall due.

Issued Share Capital: the nominal value of the shares issued to shareholders.

London Stock Exchange: a market where the shares of listed public limited companies (PLCs) are traded.

Memorandum: states the name and status of the company, and its statement of purpose or 'objects'.

Modernising Company Law: a government paper issued in response to the Company Law Review proposals in its Final report, which maps out how the Company Law framework is to be restructured and corporate governance improved.

Mutual: a governance structure owned and run jointly by its members. Also called a Co-operative.

Nomination Committee: a committee recommended in the Combined Code as part of a formal and transparent procedure for the appointment of new directors to the Board.

Non-executive Director: a person elected by shareholders to a company's board of directors who is not employed by the company

OECD Principles: An established set of discretionary good corporate governance principles.

OFEX: A regulated share market established in 1995 to provide a share-trading platform for unlisted and unquoted securities.

PFA: Professional Footballers Association.

PIRC: Pensions Investment Research Consultants.

PLC: a public limited company.

Proxy: a person who is authorised by a shareholder to vote at general meetings of shareholders in their absence.

Remuneration Committee: a committee recommended in the Combined Code to ensure directors' pay is structured so as to link rewards to corporate and individual performance, while avoiding paying more than necessary.

Resolution: formal motion by a Board, or the shareholders, authorising a particular act, transaction or appointment.

Salary Cost Management Protocol: A governance mechanism introduced by the Football League designed to restrict club spending on player wages to 60 per cent of turnover, and spending on all staff wages to 75 per cent of turnover. The ruling is currently in operation at clubs in Football Leagues One and Two.

Senior Independent non-executive Director: The Combined Code requires that there should be a strong and independent non-executive element on the Board, with a recognised senior independent non-executive director other than the chairman to whom concerns can be conveyed. The chairman, chief executive and senior independent director should be identified in the annual report.

Share register: a list of names of all shareholders.

Shareholder: a person or entity that owns shares in a company or mutual fund.

Smith Report: a report on the role of Audit Committees and the Combined Code, written in 2003.

Stakeholder: in the context of football, a person or entity with an interest in the game but without necessarily having formal representation within its decision making structures.

Supporters Direct: a Government funded initiative promoting supporters' trusts as a vehicle for supporters to play a greater role in the running of the clubs they support.

Supporter-shareholder trust: a supporters' trust that holds shares on behalf of its members.

Supporting statement: a statement of up to 1000 words accompanying a resolution requisitioned by shareholders under the Companies Act 1985.

Turnbull Report: A report on internal control for directors serving on boards of listed companies, with special emphasis on assessment of risk, evaluation and control.

Unincorporated Trust: a form of governance structure that is constructed by a trust deed and not incorporated i.e. does not fall under the regulatory requirements of Companies House or the FSA.

Executive Summary

Chapter 1. Introduction

This is the 5th annual survey of the corporate governance of football clubs in England and Wales, and of the supporters' trusts at those clubs. A majority of clubs and trusts participated. It finds a modest improvement in governance standards, but the rate of progress is slow. Nearly all club boards now approve a 1-year business plan, and more are doing risk evaluation – although this may reflect a fear of 'the bubble bursting'. Only eight per cent of clubs have a nominations committee, and 19 per cent an Audit Committee. And most are weak on training for board members – as are the supporters' trusts.

The leagues, the FA, UEFA and FIFA all appear to recognise the problems. But the response has remained inadequate. For the FA, it is urgent they introduce a properly functioning two-board structure, incorporating the Council and Board but with both slimmed down and with a more representative membership of Council and a more independent membership of the Board. The Burns Review failed to recommend this. Some of the proposals in that report would risk making matters worse.

There is a 'crisis in the Premiership', with stagnant attendances and viewing figures, a lack of competitive balance, and a poor public image. The root causes need to be tackled, with a more equal distribution of revenues to restore competitive balance within and between leagues. This is supported by most clubs that participated in the survey: 57 per cent were in favour of more redistribution within their league, and 80 per cent in favour of more redistribution from the Premier League to the Football League. Action on agent fee transparency is supported by 94 per cent of clubs.

Chapter 2. Regulation and governance by the football authorities

The Burns Review was a missed opportunity. The currently unwieldy Council has to be reduced in size if it is to be an effective strategic body. Yet Burns proposed increasing its size. He also proposed transferring strategic decision-making powers away from the Council to the Board. The Board would continue to have representatives of the Premier and Football League on it, with no indication of how the necessary independence of directors would be enforced.

The FA needs to introduce the regulations necessary to ensure the financial viability of clubs and to protect the integrity of the game. The FA must build on the work of its own Financial Advisory Unit and Financial Advisory Committee in the development of regulatory solutions that ensure the good governance of clubs. The 'Code of Corporate Governance for Football' could prove an important step in this process.

It is important that regulation is applied at the appropriate level of the game. Subsidiarity must not be a smokescreen for transferring regulatory authority to the level that needs to be regulated rather than doing the regulating. Thus, if it is clubs that need to be regulated, passing that authority to the league run by those clubs may be a mistake. For various reasons, including the growth of the Champions League, it is important that UEFA pursue appropriate regulation, such as club licensing and their home-grown players initiative.

Chapter 3. FA Premier and Football League clubs

The corporate governance of clubs has been in the spotlight with a number of high profile cases hitting the headlines, including: the battle for control of Manchester United; the financial collapse of Borussia Dortmund; revelations of fraudulent financial practices at Chesterfield in 2000-2001[1] (these were made public when reporting restrictions were lifted in September 2005); and the suspension of the league in Cyprus in April 2005 when clubs went on strike because government funding promised to them in exchange for improved governance was withheld due to lack of progress on governance reforms. These cases illustrate the importance of governance in football.

The PLC model for football clubs has been called into question and there has been a trend for quoted clubs to de-list from stock markets. At its peak there were over 20 English clubs listed on the LSE, AIM and OFEX; in 2000 ten of these were listed on the LSE. Almost half of the clubs have since de-listed and there are now just 12 listed clubs; only four of these are listed on the LSE. The majority of LSE listed clubs have 'gone private' or switched their listing to less formal markets.

The emergence of significant income gaps between the clubs at the top of the Premiership, and between the Premiership and the Football League has led to a significant increase in risk in the industry. With so much revenue at stake, the difference between finishing 4th or 5th in the Premiership can have a devastating effect on clubs' finances. Likewise, finishing in 18th rather than 17th place can reduce a club's income by millions of pounds. Small differences

[1] The chairman at that time, Darren Brown, has been sentenced to four years imprisonment for admitting two charges of fraudulent trading; a further 14 charges remain on the file.

in football performance over the season are now associated with massive differences in revenue. The rise in income inequality has also had an impact on competitive balance.

A clear majority of clubs - 60 per cent of Premier League clubs and 57 per cent of Premier and Football League clubs - are in favour of greater redistribution within their league. 80 per cent of Premiership and Football League clubs are in favour of greater redistribution across leagues and only 18 per cent are opposed. In contrast, 50 per cent of Premiership clubs are against redistribution across leagues, though it is worth noting that 40 per cent are in favour and a further ten per cent ‘don’t know’.

There is considerable strength of support from clubs responding to our survey for greater redistribution within and across leagues. The only exception is Premiership clubs’ attitudes for greater redistribution to the Football League, but even in this case the results are fairly split.

- 70 per cent of Premiership clubs think that greater redistribution would help reduce risk
- 60 per cent think it will help them financially
- 56 per cent believe it will help them compete on the field.

The combined results for Premier and Football league clubs show slightly stronger positive effects:
- 89 per cent of clubs feel that greater redistribution would help them financially
- 85 per cent believe it will help reduce risk
- 78 per cent state that it will help them compete on the field

There has been an improvement in the proportion of clubs undertaking risk evaluation and in the proportion putting 1-year business plans to the board, however, only 32 per cent of clubs carry out specific risk studies and only 57 per cent approve a 3-year business plan. There is also considerable room for improvement in the area of nominations of directors to board, the use of independent non-executive directors, induction and training of directors and evaluation of the performance of directors, the board and its committees.

- There has been a slight fall in the proportion of clubs that update their cash flow projections on a weekly or monthly basis from 93 per cent in 2004 to 88 per cent this year.
- The proportion of clubs that state that they are very concerned about their level of debt has risen from 15 per cent in 2004 to 22 per cent in 2005. This may reflect uncertainty of the value of the next TV deal and reported falls in attendances at some clubs.

The vast majority of clubs favour regulation to improve transparency in a number of areas:
- 94 per cent of Premier and Football League clubs are in favour of a ‘fit and proper person’ test
- 94 per cent are in favour of greater agent fee transparency
- 92 per cent believe that there should be tighter regulation of agents

Chapter 4. The Football Conference

Following the restructuring of the semi-professional game in 2004/05, the Football Conference expanded from a 22-club league to three leagues containing 66 clubs: the Conference National, Conference North and Conference South. We received completed survey returns from 13 of the 22 Conference National clubs – a response rate of 59 per cent – and from 28 of the 44 Conference North and South clubs – a response rate of 64 per cent.

For the Conference National clubs that responded:
- 69 per cent had at least one non-executive director (up from 46 per cent last year)
- 62 per cent separate the roles of chief executive and chair (up from 54 per cent)
- at 23 per cent, the board sets out the division of responsibilities between the chair and chief executive (up from 15 per cent)
- 31 per cent undertake an annual evaluation of board performance and of the performance of individual directors (up from 25 per cent for both)
- 62 per cent have a 3-year business plan in place approved by the board (up from 50 per cent) and 85 per cent have a 1-year business plan (83 per cent last year)
- 23 per cent have a Senior Independent Director (up from 8 per cent per cent last year)
- 54 per cent discuss governance strategy with shareholders (up from 46 per cent)
- 23 per cent have a supporter elected director on the board (same as last year)
- 39 per cent have a formal process for identifying and evaluating risks (down from 50 per cent)

38 of the 44 member clubs in the Conference North and South operate on a part-time, semi-professional basis, while 6 maintain full-time professional squads:
- average attendance of 510: just 7 per cent think full-time football is sustainable

- 52 per cent have at least one non-executive director on the board
- 29 per cent of boards undertake an annual evaluation of their own performance and of the performance of individual directors
- 79 per cent have a 1-year business plan approved by the board and 25 per cent have a 3-year plan.
- 25 per cent have a supporter elected director on the board

Chapter 5. Supporters' trusts and local communities

56 responses were received from the 90 supporters' trusts in England and Wales – a response rate of 62 per cent:

- aggregate membership was 62,549 – up 20,253 from last year
- scaled up for non-respondents, aggregate membership in 2005 was over 100,000 – an increase of over 30,000 on 2004
- average membership was 337 in 2001, 467 in 2002, 606 in 2003, 755 in 2004, and 1137 in 2005
- average turnover in 2005 was £35,998 – up from £33,923 in 2004
- only 38 per cent of trusts considered their board's skills base to be adequate or very adequate – down from 43 per cent in 2004
- 95 per cent discuss strategy, yet only 34 per cent of trusts have a business or strategic plan; both figures are slightly down on last year
- 96 per cent considered it important or very important to 'promote the involvement of supporters in the running and direction of the club'
- 89 per cent considered it important to 'develop and strengthen the bonds between the football club and the local community'
- 38 per cent consider 'owning the club' to be important or very important, compared to 19 per cent in 2004
- 30 per cent consider 'running the club' to be important or very important, compared to 18 per cent in 2004
- 22 per cent of clubs in the Premier League, Football League and Football Conference National Division have supporter representation on the board
- 35 per cent reported the relationship with the club was either strong or very strong
- when asked whether they would be interested in starting – or continuing to work on – joint initiatives with supporters' trusts, 76 per cent of clubs said they would, and five per cent would not (19 per cent did not know)

Chapter 6. Stakeholder networks in the football industry

The club survey results are based on the 91 clubs in the FA Premier League, Football League, Conference National and Conference North and South that responded:

- 72 per cent indicated they have a strong relationship with the FA
- 88 per cent claimed to have a strong relationship with their respective league
- 88 per cent also reported a strong relationship with club sponsors
- 59 per cent of responding clubs with supporters' trusts described their relationship as strong or very strong

Chapter 7. Conclusion

Good governance is particularly important for football clubs given the opaque world in which they operate, with football agents and others often trying to avoid openness and accountability.

The football authorities should do more to support good governance at clubs. They should also support the further development of the supporters' trust movement. This would assist with securing good governance practices. It would also help secure the future of the game, by developing the supporter base, encouraging the next generation of supporters, and helping to strengthen links with local communities.

The authorities should also ensure a less unequal distribution of revenues. Broadcasting revenues could be split evenly. A greater proportion of such revenues should also feed down to the lower leagues and the grass roots of the game. Similarly for match-day revenues, and even for other commercial revenues.

One objection to such policies is that many clubs are poorly run. The answer is to insist on good governance. The two key policy needs – a more even distribution of revenues, and improved governance of clubs – are consistent. The leagues and the FA should insist on both. Supporters' trusts will be useful allies in helping to achieve, maintain and develop the necessary governance processes at clubs.

The role that supporters' trusts play in helping to deepen links between clubs and the supporters and local community has been demonstrated at a number of clubs across the leagues. Where trusts have taken a controlling stake in a club, they have also shown prudent financial management and good governance practices.

Chapter 1

Introduction

The past year – since the publication of the 2004 *State of the Game* Report – has been an interesting one for football.

At the time of last year's report, business looked good. Match-day attendances appeared healthy, and despite past difficulties with the broadcasting deals for both the Premiership and Football Leagues, these too appeared relatively safe. It was not clear how great an impact the takeover at Chelsea would have. And the board of Manchester United plc were resolute in their determination to defeat Glazer's plans to buy the club with debt and then transfer that debt to the club, to be paid off through higher future ticket prices.

On the regulatory front, the FA were promising the Structural Review.

There were clouds on the horizon, though, with a continued loss of competitive balance within the Premier League even before the Chelsea effect.[1]

1. Crisis or crossroads?

A year on things look very different, and mostly for the worse. The few signs of hope are in the form of long-overdue governance reforms, as have been advocated in each of the annual *State of the Game* reports, and only now being acted upon. But the reason for much of this regulatory action – at global, European and national level – is to tackle mounting problems. To herald this as a positive development would therefore give a rather unjustifiably optimistic interpretation.

The lack of competitive balance has actually got worse.[2] The image of the game has continued to suffer as the wages of Premiership players spiral, despite the financial pressures on the game and the already high ticket prices. The long delay as Rio Ferdinand contemplated whether £100,000 a week was quite satisfactory was just the tip of a rather unsavoury iceberg. The continued rise in ticket prices year after year, ever since Lord Justice Taylor ruled that such rises should not occur, has had a cumulative effect, so that it is now no longer feasible for children – the next generation of supporters – to decide to go along to the match on a Saturday afternoon, if indeed the match is still being played on a Saturday afternoon. Of the 40-somethings who are still attending, the cost of taking a couple of children as well is too often prohibitive. As David Conn (2004) has so aptly described, we are still attending the matches, but you only have to look around to see that we're all growing old together in the grounds. The next generation are not being attracted in.[3]

This cumulative effect of increased ticket prices, combined with the deterioration in competitive balance, and the generally bad image that the game has been displaying, have together combined to produce talk of a 'crisis in the Premiership' that has received wide coverage in the written and broadcast media since the season kicked off in August. Some may deny there is any crisis at all. However, even the Chief Executive of the Premier league has argued that football is at a 'crossroads'.

There have been denials that attendance has fallen. But the seats look awfully empty on TV. And the one game that would always guarantee a sell-out plus high prices for touts would be a European home game for Manchester United. Even in the group stage match in October, though, the club had to take the unprecedented step of putting tickets on open sale. And still there were 6,000 empty seats.

This of course is also related to another development over the past year, namely the takeover of Manchester United by Malcolm Glazer, with the company taken private. In the 1980s, the idea of football clubs becoming PLCs was heralded as a way of bringing much-needed investment into the game. Of course, that was never the intention. The aim was to bring much-desired cash into the pockets of the previous owners. And in this it was remarkably successful. To the tune of around £100m in the case of Martin Edwards. The desire to profit from the game had been a long-standing one, but had been prevented by FA rules. In an extraordinary development, the FA allowed their rules to be bypassed so the feeding frenzy could commence. Now that the trough is empty, the myth of the PLC as a model for football clubs has been exposed. Two of its biggest advocates, Peter Kenyon and David Gill, have now both argued that it is no way to go at all, and that the current private company status of their clubs – Chelsea and Manchester United – is really much more satisfactory.

Now that the weaknesses of the PLC model for football clubs have been exposed, the case for community and trust ownership becomes that much more compelling.

Money did come into the game over these years, but it was not from the stock markets. It was from a combination of firstly, public money provided to upgrade stadia; secondly, increased broadcasting revenues; thirdly, the relentless inflation of ticket prices; and fourthly, the continued commercialisation of

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[1] As documented, analysed and discussed in Michie & Oughton (2004).
[2] As reported in Michie & Oughton (2005a).
[3] Though one welcome development in the Football League this season has been the 'Kids for a quid' initiative.

the game through sponsorship, executive packages, and so on.

The public money was obviously a one-off. One can only wonder with exacerbation why no ownership stake was required in return, which could have gone into community and trust hands.

The continued broadcasting revenues are currently uncertain, at least for the Premiership, but any fall for them would no doubt knock on to the Football League in time. On the previous occasions when these revenues were under threat – whether from the Office of Fair Trading or the European Commission – there was a general defence of the Premier League from supporters and others. The deals were subsequently done to the benefit of the Premier League. And TV games continued to be rescheduled at short notice to suit BSkyB. But there was no action from the Premier League to benefit the fans or their organisations, including the trust movement. That may explain in part why support for the Premier League in their haggling over future TV deals has been rather less enthusiastic this time around.

The ‘crisis’ – or ‘crossroads’ – of stagnant attendances, and possibly also TV audiences and hence revenues, is currently limited to the Premiership. But the lack of competitive balance also threatens to widen the gap between the Premier League and Football League. The Football League is therefore not immune from the excesses of the Premiership.

2. Regulatory response

That there is a problem has been dramatically acknowledged by FIFA’s President, Sepp Blatter – at the 2005 FIFA Congress in Marrakech, in the pages of the *Financial Times*, and on the airwaves of Five Live:

> Unfortunately, the haphazard way in which money has flowed into the game – reminiscent of a misguided, wild-west style of capitalism – is having some seriously harmful effects. The time has come to take action to curb the excesses and ensure that the sport protects its roots.[4]

At last, someone in authority has acknowledged that the takeover of clubs by those with no interest in the long-term good of the game is an unhealthy development. And on imbalance and redistribution, he told the FIFA Congress:

> The gap between football’s rich and poor is widening, as is the imbalance between associations and leagues. We have to fight this alarming trend. The structure of the football pyramid must be defended for the good of the game.[5]

As indicated in the Preface above, and discussed in Chapter 2 below, the regulatory response has been led, though, by UEFA. Their insistence that clubs should include at least some local players within their squads might seem unobjectionable, being of such obvious benefit to local communities as well as the future success of national teams. That it was objected to by the FA representative would appear inexplicable. Sadly, Premier League clubs, and hence the Premier League itself, have dragged their feet, at best, when it comes to regulations to protect the game. Thus, the Football League has insisted that payments to agents be transparent. But the Premier League has not. There did seem hope when Manchester United went ahead and reported this information regardless. But then Glazer took over and the practice ceased.

Of course, the failure of the Premier League to act should be dealt with by the FA. Hence the importance of the current review of the FA’s structures, following on from the Burns Review. As indicated in the chapters that follow, the Burns Review failed to make the necessary recommendations for an effective two-tier Board structure with the Council and Board. This would require the size of both to be reduced, and the membership of both to be changed. The FA could and should still do this, regardless of the failure of Burns to recommend it.[6]

3. The *State of the Game 2005* findings

The findings from this year’s *State of the Game* survey of football clubs and supporters’ trusts are reported and discussed in detail in the following chapters. Briefly, they suggest a continued, albeit modest, improvement in governance practices on the part of both clubs and trusts. For example, nearly all club boards now approve a 1-year business plan. And more are now undertaking risk evaluation – although this may also reflect a fear of the bubble bursting, and its effects. However, the results also suggest that there is still a long way to go – and, as indicated above, the game may not have the luxury of implementing these improvements at the current leisurely pace. For example, only eight per cent of clubs have a nominations committee. Given the importance of strengthening the skill sets and stakeholder

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[4] See Blatter (2005).
[5] Quoted in Conn (2005).
[6] This is argued in detail in Michie & Oughton (2005b).

representation on club boards, this is a serious weakness. And only 19 per cent have an Audit Committee. Again, given the financial pressures, risks and uncertainties that clubs face, this too is a weakness that needs to be addressed urgently. Finally, both clubs and trusts indicated serious weaknesses as regards training for board members. This is a serious problem, but hardly an insolvable one.

As for other findings, here we flag up just three, given their importance to the current ‘crisis in the Premiership’ debates, as well as for the long-term development of the game.

Firstly, a high percentage of clubs are concerned that their debt levels have risen. Given that the game cannot absorb any further increases in ticket prices – at least not without destroying all the good work that has been attempted over the past few years to make clubs accessible to their communities – this would be a serious concern even within a strong market environment. Rather, there are question marks over future broadcasting revenues, doubts over the general image of the game, and uncertainty as regards future saturation broadcasting of games and the effects this might have not only on match-day attendance but also on viewing figures – and hence revenues. With the future market environment so uncertain, rising debt levels are indeed a cause for concern.

Secondly, 94 per cent of clubs are in favour of agent fee transparency. The Premier League’s King Canute line on this is not only wrong, but is positively exacerbating the unhealthy image of the game which represents one of the greatest threats to the future financial success of the Premier League and its Clubs.

Finally, there was a surprisingly high degree of support from clubs for greater redistribution of revenues: 57 per cent of clubs are in favour of more redistribution within their league; and 80 per cent are in favour of more redistribution from the Premier League to the Football League.

4. Conclusion: where’s the beef?

So, the penny does appear to be dropping. From individual football clubs through to FIFA, there is a recognition that things are going awry, and someone should do something. But who? And what? Or as a US Presidential candidate once asked his opponent in debate – where’s the beef?

The current ‘crisis in the Premiership’ is symptomatic of issues affecting the whole game – of competitive imbalance between and within leagues, of ticket pricing, of the game’s image, and above all, of the determination of clubs, regulators and trusts to do something about it. These concluding remarks therefore refer to this ‘crisis’ – or ‘crossroads’ – even though the points are of general import. Indeed, these comments draw upon the survey returns from clubs and trusts from across the leagues.

These problems within the game need to be tackled through a variety of actions:

i. Improving competitive balance, for example by a less uneven distribution than currently applies of broadcasting, gate and possibly other revenues, within and between leagues.
ii. Halt and if possible reverse the relentless rise in ticket prices; this would be made easier by other measures being pursued, such as reigning in agents’ fees.
iii. Consolidate and grow the fan base. For this, ticket price restraint is vital, but so is working with supporters’ trusts. This last point – of trusts helping to build support for the club – is acknowledged as being important by most clubs.

There is a range of additional actions required of clubs, trusts, leagues, the FA and others that are discussed in detail in the following chapters. The key message to stress here is that we may not have the luxury of enjoying a further year of only gradual improvement. There does need to be a concerted effort by all those with an interest in the good of the game. The survey results from clubs, as well as trusts, indicate that there is an increasing will to act. And the chapters that follow show that there is a way. We hope that everyone reading this report will help to ensure that the necessary changes are brought to fruition and that a healthier basis for the game’s future development can be secured.

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Chapter 2

Regulation and governance by the football authorities

Over the past year, discussion of the governance of football in England has been dominated by the structural review of the Football Association (FA). Last year's *State of the Game* reported on the prospect of change within the organisation following the high profile resignations of the chief executive and director of communications. Following representations made by the Minister for Sport on the need for a structural review, the FA eventually appointed Lord Terry Burns to report on the structure of the FA and make the necessary recommendations (see appendix one).

As described in previous editions of *State of the Game*, the FA represents the main terrain of dispute in the quest for political influence and control in English football, as the various stakeholders look to gain, maintain or extend their power bases within the English game. The FA Premier League (FAPL) has gained increasing independence since its formation in 1992, and continues to lobby vigorously within football's governing framework (both nationally and internationally within UEFA) to consolidate the position of the elite professional game. Whereas the FA ought to be the point at which football's stakeholders come together and make decisions with regard to overall strategy for the game in England on issues ranging from grassroots development to promoting excellence at the apex, the organisation has been more frequently characterised by infighting and the instincts of self-preservation.

Fears that the reform process could be hijacked by the elite professional game were articulated by former FA chief executive, Graham Kelly, who remarked that the structural review was a 'Trojan horse driven by the Premier League' (quoted in Davies, 2004). These fears were given considerable substance by the manoeuvrings of FAPL representatives prior to the appointment of Lord Burns as co-ordinator of the structural review. Rupert Lowe, for example, a member of the FA Board prior to the relegation of Southampton FC attempted to pre-empt the review by drafting his own recommendations.

Lowe's plan proposed delegating to the Professional Game Board (PGB) responsibility for the England team and the FA Cup, the FA's most valuable properties. Given that the PGB would be dominated by FAPL (and FL) representatives, the plan constituted little more than a land grab by the FAPL – an attempt to gain greater, if not sole influence, over the FA's most valuable commercial assets. This was confirmed by Lowe who stated: 'the FA is the game's governing body and should be in charge of grassroots football and avoid getting involved in too many other things' (quoted in Rich, 2004). In response, the National Game (the County Football Associations operating within the FA) succeeded in appointing ITV head of sport Brian Barwick to the position of FA chief executive, largely against the wishes of representatives of the FAPL (see Conn, 2005; Gibson, 2004; Harris, 2004).

1. 'Subsidiarity' and the governance of football

One of the notable themes that has emerged in debates on the governance of football is the respective breakdown of decision-making responsibility. Increasingly, the professional game and the amateur game are regarded as two separate, rather than connected entities, and this division has come to characterise many of the debates with regard to the division of decision-making powers in the governance of football. Increasingly, the professional game has sought to gain greater independence and autonomy from the national associations, and their international representatives, UEFA and FIFA, that have organised and regulated football on a continental and global level. Both the elite clubs and leagues have increasingly sought a greater degree of freedom in their activities, and greater influence in the decision-making and organisational process. This is evident in a number of areas, such as the growing autonomy of leagues from the national associations which has created rival centres of governance. This is particularly the case in England, but similar trends are evident in other European nations. In the international sphere, one can see the existence of the G14 as a means by which the elite clubs of Europe seek greater influence, and lessen the influence of UEFA, whose membership is comprised of the national associations. In England, the creation of the Professional Game Board within the FA is evidence of this shift with regard to the boundaries of governance.

In its submission to Lord Burns, the FAPL argues: 'It is essential that decision-making be devolved to those constituent parts of the game that are primarily effected by and directly interested in the outcome … there is a need to maximize the benefit to the game from using the immense knowledge held within each sector by giving custodianship – ownership, responsibility and accountability – of the various functions to those best able to discharge them. We believe this to be in the best interests of all key groups within the FA' (FAPL, 2005: 7). Similarly, The FL argue: 'We believe that, as a matter of principle, a reconstructed FA should embrace a philosophy and policy of devolved Administration and responsibility where practicable'

(Football League, 2005: 3). Football in England is based on a pyramid structure in which the different levels are connected to each other through a hierarchy of both governance and competition. In the context of this framework, it is important to recognise that the various different levels of the game are intrinsically connected to each other. The grassroots depends on the professional game for financial investment, but at the same time the professional game recruits players and coaches who have been developed and educated in the national game, whether that be schools football, or local and regional club football, or in the semi-professional game. Whilst drawing distinct lines of interest may be philosophically and managerially attractive, the complex and interrelated environment in which football operates sometimes makes such distinctions difficult to draw.

Arguments in favour of ‘subsidiarity’ and ‘devolution’, therefore, often amount to little more than the desire for control over resources. The resignation of Adam Crozier as FA chief executive in 2002 was grounded in the desire of the FAPL to increase its influence within the FA through the creation of the Professional Game Board, which Crozier considered contrary to the best interests of the FA as a whole (*State of the Game 2002*: 7; Conn, 2005). Similarly, in its submission to Lord Burns, the FAPL suggests the ‘Professional Game Board would provide main representation in Europe – either through its representatives, or dedicated representatives’ (FAPL, 2005: 9). Whilst the relationship between English and European football is dominated by professional club and national team football, the implications of devolving power to the professional game in this way could have all sorts of implications on issues such as payments to clubs for the use of players in national team tournaments, the release of players, and the international calendar. The clubs and leagues see themselves as the representatives of the professional game, but the interests of these clubs and leagues are not always congruent with the interests of the national association, or the interests of other levels of the game. English football, as both an industry and in terms of governance, is a collective enterprise with a high degree of interdependency. Any process of governance must reflect that, as well as incorporating effective decision-making structures for the different levels of the game.

Furthermore, football is ultimately a sport. As such, it requires rules and regulations in order to function effectively, whether that be in ensuring financial probity and integrity within clubs or from a purely sporting point of view in terms of sporting rules. Such rules need to be developed so as to promote ‘good governance’. Football’s ability to retain its sporting pre-eminence and maximise its financial and sporting potential will depend to a certain degree on the sport being effectively run with transparency and accountability.[1] Similarly, football clubs are not simply autonomous businesses, but community institutions that form an important part of the nation’s social and cultural fabric. As such, the football authorities have a responsibility to protect the game and its clubs, and protect the wider integrity of the game. We would argue that ‘good governance’ is best achieved by ensuring that there is neutrality and independence in the decision-making processes, as well as devolution to the appropriate organisations. However, the professional clubs have often resisted new regulatory measures (see *State of the Game* 2003 and 2004). Subsidiarity in this context can undermine attempts to govern the game effectively.

The discussion below focuses on two contemporary issues. Firstly, we discuss the proposals recommended by Lord Burns following his structural review of the FA. Attention will focus on the composition and responsibilities of the internal organs of the FA, how they relate to each other, and on how best to promote effective decision making within the organisation, in the best interests of the FA and the wider game. Secondly, we look at the wider breakdown of regulatory responsibility in the governance of football and at how ‘subsidiarity’ can be best applied to divisions of regulatory responsibility between the national, continental and global governing bodies.

2. The Burns Review of the FA

Unquestionably, Lord Burns faced a difficult task when asked to analyse and make recommendations on the structures of the FA. In the *State of the Game 2003* we reported on how the structure of the FA impacts negatively on the good governance and regulation of football in England:

> The governance of football in England by the FA has been characterised by the growing confidence and dominance of the FAPL and its representatives. This has severely compromised the ability of the FA to govern independently on behalf of all interests under its jurisdiction. The

[1] UK Sport published the UK Sport Good Governance Guide for National Governing Bodies, produced by the Institute of Chartered Secretaries and Administrators. The guide addresses issues of governance in connection with individual Board members, the organisations, stakeholder participation, and compliance.

> organisation is characterised by competing interests and power bases. Members of the FA's decision-making structures increasingly behave in the fashion of delegates speaking and making decisions on behalf of their vested sectional interests, rather than as representatives with the responsibility of making decisions based on the achievement and the balancing of all the FA's constitutional and core objectives … it is difficult to see how the FA can reassert its authority without external intervention and the injection of independence into the processes hijacked by the top of the professional game (FGRC, 2003: p. 10).

Comments received by Burns included:

- 'The FSF [Football Supporters' Federation] believes that the FA needs root and branch institutional reform'.
- 'There should be a root and branch review of the structure which should depend on the functions the FA is asked to fulfil' (The Independent Football Commission).
- 'The FA Council should truly reflect all the key players and interested parties in the game and the Board of the FA should be made up of the Heads of all those interests, not just some' (the Professional Footballers' Association).
- 'The FA has not fulfilled its role as the overall governing body, acting in the wider interest' (Supporters Direct).
- 'The FA is in excellent health … It is the view of the National Game Board that this background or recent change, together with the current successful position of the FA, does not demand significant alteration to the structure of the FA' (The National Game Board – representing the County FAs).

Burns clearly saw his task as being not just to provide recommendations that would promote better governance within the FA, but also to provide a report to be politically acceptable to the established vested interests, who have control over changes made to the structure of the FA; namely the professional game represented by the Football League (FL) and FAPL who jointly hold a special share in the FA, and the County FAs who have a controlling majority on the FA Council. This explains why the recommendations made by Lord Burns were so conservative, and fell far short of what was required. Let us consider the specific proposals.

2.1 The FA Board: composition and responsibilities

Lord Burns recommended that the FA Main Board should be composed as follows:

- three directors from the community game;
- three directors from the professional game (two from FAPL and 1 from FL);
- two executive directors;
- two or three independent non-executive directors (if the chairman of the Board is an independent member, there should be a further two independent directors as a minimum); and
- if the president of the Council is not the chairman of the Board, then he should also be an additional member of the Board.

There are a number of problems with Lord Burns' recommendations. Firstly, Burns' recommendation for an FA Board of between ten and twelve members is at odds with the Higgs Review which argued that 'an effective board should not be too large as to become unwieldy', noting that the average size of board for listed companies was 7, comprising 3 executive directors, 3 non-executive directors and a Chair (2003, p. 22). Our report - *The FA: Fit for Purpose?* - argues that the FA Main Board could be reduced to eight members. The Executive Board of the French Football Federation, for example, is composed of nine members.

As well as its size, the composition of the FA Board also raises particular issues. Burns recommends that the FAPL and FL continue to send representatives to the Board, and that this representation remain two to one in favour of the FAPL. Whilst this recognises the economic weight of the FAPL, we believe that the growing popularity of the FL, and the fact it represents 72 clubs as opposed to 20, means that it should have parity of influence on the FA Main Board. Most importantly, Burns' recommendations fail to address the lack of representation of a number of important stakeholder interests on the Board of the FA, including players, supporters, managers and coaches. Moreover, the position of the Football Conference is inadequately addressed, and remains isolated by the recommendations. The Board composition recommended by Burns does not adequately reflect the importance of these stakeholder groups and the need for wider representation, as a means to improve governance. Burns' recommendations are also in contrast with other football association boards in Europe. In Italy, for example, the Board contains representatives of players, managers, youth development, technical development, and the professional and amateur leagues.

Given Burns' proposal to maintain the narrow composition of the Board, its remit becomes particularly important. Burns recommends giving the Board a wide range of powers, including the following:

- setting the strategic aims of the FA
- reviewing Board and management performance
- determining overall strategic development for football
- promoting and staging FA competitions
- maximising income earned by the FA, including broadcasting and sponsorship revenues association with the England team and the FA Cup
- determining and publishing the Board's policy on compliance with, and enforcement of FA rules and regulations
- strategic oversight for subsidiaries
- representing football within the UK and internationally
- senior appointments and financial performance

These substantial responsibilities would endow the Board with considerable power. Burns recognises that directors 'have a duty to act in accordance with the objectives of the FA. This means that, whilst the composition of the Board might reasonably be expected to be representative of the broad balance of stakeholder perspectives, directors would be expected to conduct themselves in the interests of the FA rather than the organisation they represent' (Burns, 2005: paragraph 17). This implicit recognition of what is a major problem with the current FA Board structure and conduct is an important statement of good governance practice, but Burns' Report is silent on how this would actually be achieved through his recommendations.

2.2 The FA Council

Lord Burns sought to address the lack of representation of stakeholders within the governing structures of English football by promoting the FA Council as the 'Parliament' of football 'constituted to represent the wide range of interests of football and empowered to hold the Board to account' (Burns, 2005: paragraph 35). Burns recommends that the following tasks are allocated to the Council:

- approving any proposals to change the rules and regulations of the FA;
- approving any proposals to change the funding formula that distributes financial surpluses;
- approving the appointment of president of the Council;
- approving changes to the composition of the Council;
- hearing presentations by and challenging the Board on activities, including the preparation and periodic revision of its strategic plan and the performance of the FA against that plan;
- hearing presentations by, and challenging, the Regulation and Compliance Unit on its activities; and
- debating matters of significant general interest to football

(Burns, 2005: paragraph 39)

Burns recommends that a majority of the Council continues to consist of the county FAs as a counterweight to the 'special share' held jointly by the FL and the FAPL. His proposals to downgrade the importance of representation of the armed services, and to remove the privileged position of Oxford and Cambridge Universities in favour of the wider further and higher education sector, are unlikely to be greeted with any great opposition. Additionally the proposed 'Council of Honour' seems to be an appropriate means by which to reward long serving members of the organisation, rather than life membership of Council, which needs to be an effective working body. Likewise the proposal that the Council should also have 'lay members' – individuals whose standing within the game could be expected to enable them to make a positive contribution.

Ultimately, however, Burns recommendations fail to address the serious deficiencies of governance within the FA, namely that influence remains within the hands of too few people and organisations; Burns proposes a weakened and expanded Council that would be unable to bring any great influence to bear. Under Burns' proposal the Council would have the right to 'revise' strategic plans, but it is the Board that would enjoy major responsibility for strategic planning. Lord Burns' report therefore proposes increasing the representativeness and size of Council but taking away its powers by transferring much of its strategic role to the Board. We support Burns' recommendation for the Council to be more representative of the whole game. However, it seems somewhat pointless to extend representation within a body that is too large to be effective (thus minimising the 'new' stakeholder influence) and has little strategic role. The key is not to increase representation for the sake of increasing representation, but to open the decision-making process to organisations and individuals previously disenfranchised so as to improve decision-making and ensure more representative governance. The failure of Burns to address this issue has already been noted by at least one key stakeholder. According to Philip French, chief executive of Supporters Direct:

> With over 100 supporters' trusts and 13 clubs in trust ownership or control we are at a loss to understand why the report has not recommended that a supporters' trust representative be given a place at FA Board level given their work promoting corporate governance and financial control. The absence of such a recommendation is glaring, and one we believe will make it very difficult for any reconstituted FA Board to pursue its strategic role of representing the whole of the game's interests effectively. The suggestion that the FA set up a customer panel may be regarded as a step in the right direction, but its limited scope in dealing purely with the regulatory commission and not being able to ask any direct questions about individual cases does not suggest anything but a marginal involvement … overall the recommendations are largely cosmetic and have not addressed the wider issue of representation. We cannot understand how the report can claim that the FA is the game's governing body and not represent the views of the whole game in any meaningful capacity.[2]

2.3 The relationship between Council and Board

The relationship between the Council and the FA Main Board therefore assumes critical importance. Burns makes no attempt to articulate why stakeholders are excluded from the Board apart from to say that the Council should be the 'Parliament' of football. These stakeholders should play a full role in decision-making, especially at the strategic level. We have argued elsewhere that this requires firstly, the Council to become a truly strategic body, and secondly stakeholder representation on both the FA Council and Board (FGRC, 2003; Michie and Oughton, 2005). The Council needs to become representative at the same time as being reduced in size so as to allow it to become an effective strategic body. The FA currently has a two-tier governance structure (the Council and the Board), but with the Council unwieldy, unrepresentative and ineffective, the Board has assumed a position in which it has been largely unaccountable for specific decisions and for overall performance. By re-invigorating the Council, the Board could be made accountable, and forced to improve its performance: 'if Council is not strengthened the FA will fail to be a representative body' (Michie and Oughton, 2005: 22).

A two-tier system can provide an appropriate vehicle for effective stakeholder integration but this can only be realised if the bodies into which stakeholders are integrated are effective. There is a dedicated Code of corporate governance that sets out best practice for two-tier systems which are commonly used by world class businesses on the continent and by trade associations and various governing bodies. In such a system the management board (in this case the FA Main Board) is responsible for managing the organisation, and the supervisory Board (in this case the FA Council) 'appoints, supervises, and advises the members of the management board and is directly involved in decisions of fundamental importance to the enterprise' (Government Commission, 2005: 1). Two-tier structures are appropriate where there is a need to involve stakeholders, as is the case with the FA. Thus there is well-researched guidance on how strategic powers should be shared between the two tiers, the appropriate size of the two tiers, and what information should be passed between the two tiers. This best practice was ignored by the Burns review.

2.4 The committee structure

Lord Burns also advocates wholesale reform of the committee structure of the FA. According to Burns:

> In the past, the executive functions of the FA have generally been shared between the committee structure and the full time staff working under the Chief Executive. Under these proposals executive responsibility would rest with the staff, supported and assisted by whatever arrangements are warranted. These would be expected to include advisory committees and the appointment of part-time expert advisors on specific football matters. Although the structure of committees of Council would no longer exist in its current form, it is reasonable to expect that the experience and expertise of Council members would continue to be sought through membership of advisory committees.

It is certainly the case that the division of responsibility between different areas of the FA has been less than clear, and that the committee structure has complicated the process of decision-making:

> There are currently too many committees with inadequate or inappropriate reporting structures, terms of reference, membership and work

[2] http://www.supporters-direct.org/englandwales/burnsresp.htm

> programmes. This structure needs to be rationalised. Clear roles and reporting lines need to be established and made clear for all committees. Committees should only exist for as long as there is a clear task for them to undertake. Committees should be advisory, reporting as appropriate to either the executive Board or Council (Michie & Oughton, 2005: p. 23).

Thus, whilst Burns is correct to see the deficiencies inherent in the current committee structure, the danger inherent in Burns' proposals is that decision-making would revert to the executive (under guidance from the Board), and that the wealth of experience that is available to the FA would be overlooked. Having effective standing committees serves two important purposes. Firstly, the entire system of governance in football is based on participation and representation. The committee system widens the opportunity for stakeholder participation. As the National Game Board argued in their submission to Lord Burns: 'Committees are essential in a democratic organisation that has to satisfy a wide range of interests and concerns. A carefully selected committee ensures that all interests are properly represented by people with the appropriate knowledge' (National Game Board, 2005: p. 9). Secondly, the committees, if functioning correctly, can play an important role in improving decision-making, by contributing to debate and acting as a counterweight to a more powerful Board and executive. This was evident earlier in the year when the FA Board overturned its own decision to scrap fifth and sixth round replays in this season's FA Cup, following the intervention of the FA Challenge Cup Committee (Scott, 2005). We would therefore advocate that a selection of standing committees remain, characterised by the following:

- clear reporting lines
- clear terms of reference
- mechanisms for reviewing the performance of committees and members
- membership drawn from but not limited to Council
- inclusion of independent members and stakeholder representatives

2.5 'Subsidiarity' and the structure of the FA

Lord Burns promotes the idea of two separate umbrellas for the national and professional game:

> Whilst it is proposed that the new FA Board has full responsibility for the running of the FA … it should not deal with all matters and make all decisions. The nature of the FA, and the organisations to which it relates, makes it especially important that it is clear about what issues should be dealt with by whom. Further, the principle of 'subsidiarity' points towards delegating responsibility for arriving at decisions as far away from the 'centre' as possible where this can be achieved without jeopardising their quality and objectiveness (Burns, 2005: paragraphs 27-28).
>
> Although the issues that concern each of the National Game and the Professional Game are generally very different, there is a strong case for symmetrical treatment in the way the FA interacts with them, because this ensures they are positioned as having equal importance in the world of English football and thus facilitates long-term stability (Burns, 2005: 24)

Burns sets out three options for separating the various decision-making spheres and organising amateur and professional football: a separate company, constituted as a federation of county FAs operating under delegated powers of the FA; a subsidiary of the FA operating in a similar way but with the FA as sole shareholder; and a department or delivery unit within the FA itself. Burns argues that there is a strong case for the first option which he suggests: 'would relate to the FA in the same way as the Premier League and the Football League relate to it on the professional side' and with separate executive teams focused on professional and national game issues (Burns, 2005: paragraph 94). Burns argues that the first proposal would offer 'clarity' as to roles and responsibilities and 'ensures that relationships are arms length' and therefore transparent, and it maximises the potential for both sides of the game, especially the national game, to benefit from their own distinct identities.

Burns however, noting the general view that there are inherent polarising risks involved in dividing the game in this way, instead advocates the creation of two subsidiaries within the FA – a 'Community Football Alliance' and a 'Professional Football Alliance'. Burns advocates that the following might constitute the objectives of the Professional Football Alliance:

- the promotion of the integrity and well-being of the professional game;
- the promotion of onfield quality, with a view to supporting the long-term success of the England team and English clubs in international competitions;

- the promotion of the highest standards of governance and conduct in the professional game, including clubs and their employees;
- the promotion of the interests of the professional game internationally;
- the promotion of the interests of customers of the professional game; and
- development of a system of meaningful and robust performance measures for the professional game to enable the alliance and its stakeholders to monitor performance against its stated objectives.

However, dividing the game in this way runs the risk of polarising two sides of the game that are intrinsically interrelated. History suggests that the professional game does not always prioritise FA objectives. In terms of governance and regulation Burns sees the Professional Football Alliance as the mechanism through which changes in rules and regulations covering the conduct in the game and the sanctions process were brought to the Board. But as pointed out in previous editions of *State of the Game*, the professional game has repeatedly *resisted* efforts by the FA to improve regulation and governance. The delegation of ‘regulatory’ aspects of professional football to the FAPL and FL might hinder rather than improve the prospect of effective regulation. For example, whilst the FL now publishes the fees paid to agents by clubs, the FAPL still opposes such a regulation, downplaying the need for transparency.

Burns argues that the England team and the FA Cup should be the ultimate responsibilities of the Board, but that consultation with the Professional Football Alliance would reduce some of the current tensions, such as the use of England players in sponsorship contracts. According to the submission made by the FAPL to Lord Burns:

> The FAPL clubs, which are so obviously the closest in many respects to the England team in terms of players, coaches, stadia and associated activities such as commercial, marketing and PR, can feel very detached from it and the decisions that are made around it. … it must be right for the game as a whole that the clubs who provide the inventory and employ the talent (and bear the cost of sale) have confidence in the processes and people who make decisions, have a genuine input and see real transparency and consultation in matters that directly affect them. Then the clubs will be able to feel positive ‘ownership’ and will want to contribute to the success of these rights (FAPL, 2005: p. 5).

The players that represent England have often come through a number of levels including schools and amateur football, and different levels of the semi-professional and professional football pyramid. Each of these levels can reasonably argue that they have contributed to the success of those chosen to represent England. Secondly, the International Committee of the FA[3] contains Noel White as chairman (Liverpool), Dave Richards as vice-chairman (chairman of the FAPL), David Dein (Arsenal), and Robert Coar (Blackburn Rovers), plus five members attached to Football League clubs: this suggests that the FAPL already have an involvement in decisions affecting the national team. Thirdly, the FAPL has behaved in the past as if they do have a conflict of interest regarding the England team. Thus, FAPL managers often refer to ‘meaningless friendlies’ - games that enable the national team to work together prior to competitive fixtures.

Clubs have also continued to lobby, both within the FA as reported in last year’s *State of the Game,* and also UEFA and FIFA through the G14, for payments to be made to clubs for the use of players in international fixtures – in clear conflict with the financial interests of the FA itself. The lack of commitment of the FAPL to international football was epitomised this year by the refusal of the FAPL to extend the requirements introduced by UEFA to include a minimum number of ‘homegrown’ players in their squads for domestic competition. One of a number of key objectives of the proposals is to ensure that a greater pool of talent is available for international team competition following concerns about the increase in the purchase of ‘foreign’ talent, and the poor performance of the big nations at EURO 2004. The FA chairman argued within UEFA on behalf of the FAPL’s position on this issue – of hostile opposition – in direct contradiction to one of the key areas of responsibility of the ‘Professional Football Alliance’.

The FAPL seeks greater involvement, not because it wants to ‘feel positive ownership’ or to ‘contribute to success’, but in order to steer international football in a direction more acceptable to the clubs. This would be likely to include the number of international fixtures played, the utilisation of players in those fixtures, the England team as a commercial vehicle for the FA, and the issue of payments to clubs for the use of players.

[3] The remit of the international committee of the FA is: to implement and manage the Board’s policy in relation to all international representative teams; to represent the Council at all international representative team matches involving teams at under-19 level and above (The FA, 2004: p. 25)

In the context of subsidiarity in decision-making, this is one illustration of the need to be cautious about greater independence of the professional game from the FA. The concept of 'subsidiarity' can all too readily be used as a smokescreen for the professional game to gain greater control. Unless the definition of 'professional game' is stretched beyond the leagues and contains much broader representation of stakeholders such as supporters, players, coaches and so on, great care must be taken when it comes to the division of decision-making responsibilities.

2.6 The Burns Review and regulation

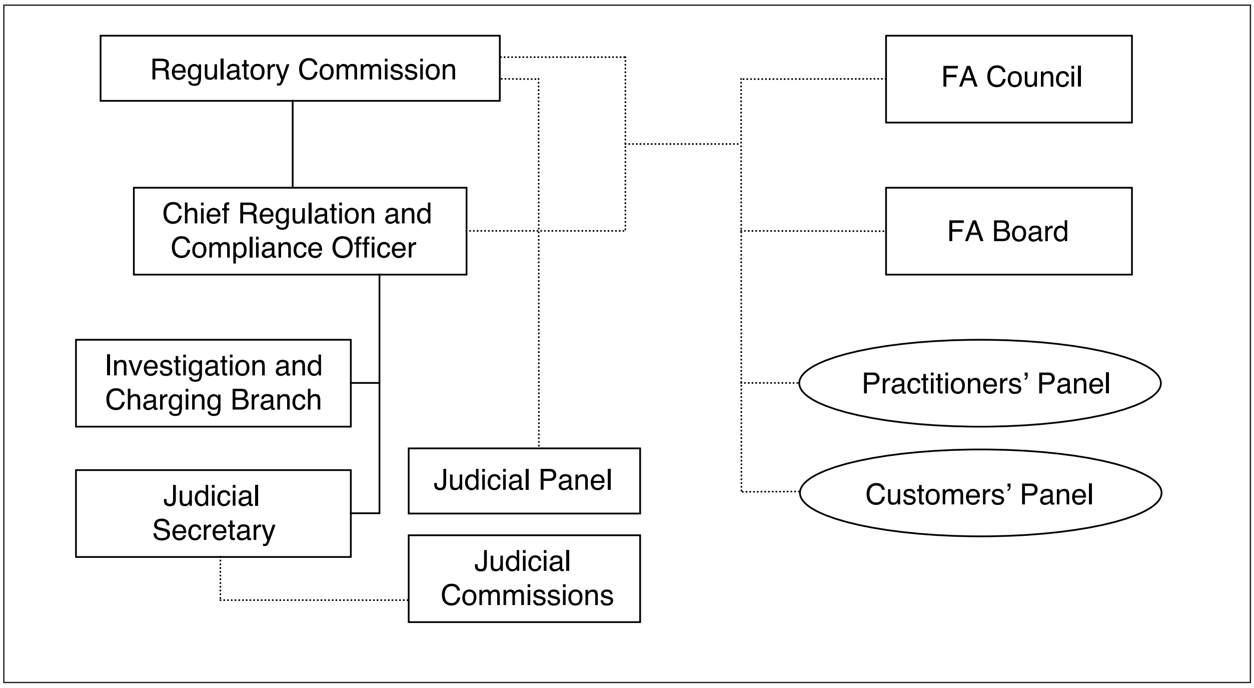
One of the more positive recommendations of the Burns Review is to create a semi-autonomous 'Regulation and Compliance Unit'. We have consistently called for tighter regulation, arguing the FA has failed in its responsibility to ensure the highest individual and organisational standards in English football, especially in terms of financial probity and the regulation and ownership of clubs. As we noted in the *State of the Game 2003*:

> A number of reports into the regulation of football have recommended that the FA introduce compliance mechanisms, in order to ensure financial stability and the integrity of the game (Smith, 1997; The Football Task Force, 1999). Yet recommendations contained within these reports have been either implemented in a diluted form or simply ignored (FGRC, 2003, p. 8).

Lord Burns has provided another opportunity for the FA to create and enforce a more effective and rigorous system of regulation. Burns articulates the regulatory process, which is illustrated in figure 2.1.

Developing regulatory policy is a hugely important aspect of the FA's work. The disincentive for the professional clubs to impose stringent regulations upon themselves provides one important reason for the FA Board to be balanced in such a way that the professional game cannot block such initiatives. Equally important, however, is that regulatory policy, once formulated is effectively and fairly enforced. As Burns argues: 'The appropriate enforcement of these rules is essential in order to preserve the integrity of the sport and the way it is organised. This enforcement must be undertaken objectively by individuals who face no conflicts of interest in their work, and who are free from influence from those who have an interest in the

Figure 2.1 Proposed Structural Arrangements for the Regulation and Compliance Unit



outcome of their work' (Burns, 2005: paragraph 66). Burns sees the RCU as the vehicle through which this can be achieved.

The essential concept of the RCU is to bring together into one unit a discrete and semi autonomous organisational unit of all the FA's enforcement responsibilities in order to make the relationship between it and the rest of the FA publicly visible. This also achieves a clear separation between the making of policy, which should remain a core FA function, and the execution of enforcement, which would fall to the RCU (Burns, 2005: paragraph 67).

This would be not dissimilar to UEFA's 'Organs for the Administration of Justice'.[4] Members of these bodies may not belong to UEFA's Executive Committee or any other committee of UEFA and thus there is a separation between those with executive and judicial responsibility. Separating the executive and judicial functions should help instil what Burns refers to as 'independence, clarity of responsibility and transparency' and importantly the 'perceived integrity' of the process. Whilst this is an important aspect of the report, further work is required.

The FA needs to regain the regulatory initiative. The FL and the FAPL are the respective organisers of professional competition, but it should be the FA, and a body within the FA that has independence from the clubs, that develops and enforces regulatory measures. Burns' initiatives with regard to regulation are therefore dependent on re-empowerment of the FA as a regulatory body. UEFA Club Licensing, for example, should be monitored and enforced by the FA (in conjunction with a European body as discussed below), rather than being delegated to the FAPL which does not enjoy the same independence.

2.7 Accountability of the 'Regulation and Compliance Unit'

Lord Burns recognises the important role that accountability has to play in any regulatory framework. Given that in this case he sees no 'line responsibility' from the RCU to either the FA Board or the chief executive, Burns promotes several other ways of ensuring accountability. These include the publication of an Annual Report; introducing transparency of judicial proceedings and outcomes; accountability to the FA Council; and the introduction of 'stakeholder panels'. One panel would comprise 'practitioners' (including players, coaches, referees, and so on). The other would include 'consumers' to include supporters and other 'independent members with experience of handling consumer matters' (Burns, 2005: paragraph 21). For the mechanism to work effectively it is vital that the consumer panel be selected by the representative supporter groups, rather than – as recommended by Burns – appointed by the FA following consultation with the regulatory commission.

2.8 Summary: the need for a better governed game

Whilst compliance mechanisms are important, it is also vital that the regulations being enforced are effectively formulated to achieve the intended purpose – namely, to help achieve the FA's stated policy objectives. The FA needs to introduce the regulations necessary to ensure the financial viability of clubs and to protect the integrity of the game. Given that evaluation of regulatory policy and performance was outside the remit of Lord Burns' review, the FA must build on the work of its own Financial Advisory Unit and Financial Advisory Committee in the development of regulatory solutions that ensure the good governance of clubs and the wider industry. The formation of a 'Code of Corporate Governance for Football' could prove an important step in this process.

3. The regulation of domestic and European football

The FA is the crucial organ of governance in English football. It needs to rediscover its regulatory authority and independence. However, at a professional level, the FA functions as only one of three regulatory bodies in European football. The FA regulates the game nationally within the regulatory framework provided by FIFA at a global level. UEFA – the body representing the national associations at a European level – has traditionally been involved in the organisation of European club and national team competition. Now, UEFA is looking to impact more directly on the regulation of clubs both through its own competitions, but also by promoting and utilising its role as the European body as a means to empower the national associations and impact on regulation at a national level.

Transformations in European football have necessitated a re-evaluation of the current division of regulatory responsibility. The Bosman ruling, increasing disparities in revenues between national markets following developments in broadcasting technology, and the fact that the elite clubs function effectively in two different competitive environments have necessitated a re-evaluation of the regulatory framework in which clubs operate. The growth of the

[4] Which consists of the Control and Disciplinary Body, the Appeals Body, and the Disciplinary inspector (UEFA Statutes, 2005).

Champions League in both sporting and financial terms means that the control and regulation of football will increasingly occur at the European level. Additionally, the growth in the power of the national leagues at the expense of national associations means that more effective regulation by the international bodies has the capacity to generate common standards of governance across Europe. In that context we believe that a re-evaluation of the relationship between the regulatory bodies will be required to ensure effective regulation and governance in the coming decades.

3.1 Regulatory and sporting divergences across Europe

Across Europe, there are divergences in governance. This is evident in a number of different areas. Firstly, the respective influence of clubs, leagues, and national associations varies from country to country. In England, as noted above and in previous editions of the *State of the Game*, the FAPL has sought to gain increasing independence for the elite professional game through extending its regulatory remit at the expense of the FA, and by gaining an increasingly influential foothold within the FA itself. In Italy in particular, the largest clubs – AC Milan and Juventus – are perceived as having enormous leverage within both the Italian League (Lega Calcio) and the Italian FA (Federazione Italiana Giuoco Calcio – FIGC). For example, the president of the Lega Calcio, Adriano Galliano is also chief executive of AC Milan; and the president of the FIGC, Franco Carraro, was formerly of both the league and AC Milan. Similarly, in Spain, Barcelona and Real Madrid are considered to have enormous influence on decision-making within Spanish football.

It is interesting, for example, to consider the different responses of the Spanish and English FAs to Real Madrid and Liverpool finishing fifth in the league in the same season as winning the UEFA Champions League (UCL). Whilst the Spanish FA nominated Real Madrid as entrants for the UCL the following season, at the expense of Real Zaragoza, the FA nominated fourth placed Everton, at the expense of UCL winners Liverpool. These diverging decisions, in an identical situation, point to the strength of the league in England, and conversely to the strength of the largest clubs in Spain. No doubt a range of factors affect the contrasting levels of influence of the clubs and leagues, but it is worth noting that, of the ‘big five’ markets, the leagues seem to be stronger where television deals are negotiated centrally (England, Germany, France), and the clubs seems to be stronger where the television deals are negotiated individually (Spain and Italy).

3.2 Changing the regulatory framework of European club football

Differences between national systems of regulation, combined with the polarising consequences of commercialisation, have the increasing capacity to impact on sporting outcomes. The different environments in which clubs operate lead to the existence of an uneven playing field. The more tightly regulated countries are characterised by greater financial stability, but struggle to compete against clubs which enjoy more liberal regulatory regimes. The increasing importance of European football, and the impact that different regulatory systems have on the ability of clubs to compete effectively, requires a re-evaluation of the breakdown of national and continental regulation.

There should be a greater standardisation of regulatory regimes in Europe, and UEFA is the appropriate body through which that should be achieved. In sporting terms, the Bosman ruling and the growing movement of players across national boundaries has led to a concentration of playing talent in the largest and most affluent markets. The sporting consequence of this has been to squeeze the number of countries capable of producing successful clubs at a European level. At a national level, sustained participation in the Champions League amongst the elite clubs has led to a concentration of sporting and economic success amongst the top clubs. Whilst certainly not impossible, it is becoming increasingly difficult for clubs to penetrate into the elite group. Given the ‘Europeanisation’ of football, following Bosman and the opening-up of the labour market in the European Union and beyond, it is incongruous that, with the exception of the regulation of competition itself, regulation of the game is almost entirely the responsibility of national associations at a domestic level and FIFA at a global level, with no continental level involvement.

Noting the concentration of wealth and sporting success, the French Professional League, for example, argues that ‘the framework needs to be standardised in order to ensure equal opportunities (LFP, 2005: 14). We reported in last year’s *State of the Game* that UEFA Club Licensing constituted an initial attempt to equalise the regulatory boundaries and that it could constitute a significant element of regulation. The system is modelled on the regulatory system in Germany and was formulated following increasing concern about financial practice at some of Europe’s major clubs – what UEFA chief executive Lars-Christer Olsson referred to as ‘financial doping’.

Reaction to UEFA Club Licensing has varied from country to country. Whilst representatives of the FAPL and the Italian League (Lega Calcio) reacted negatively, other organisations have argued that the system does not go far enough as a means to equalise regulatory divergences in the different countries: the French Professional League (Ligue de Football Professionelle – LFP) published *For European-level financial control of clubs: A level playing field for Europe* (2005), arguing strongly that UEFA Club Licensing should be extended in terms of both the stringency of its requirements, but also in terms of the means by which the scheme is policed. According to the LFP: 'UEFA's approach represents a first step, but it is already apparent that it is necessary to go further and implement a European-level financial control of clubs' (LFP, 2005: 5).

The system's objectives include: improving the economic and financial capability of the clubs, increasing their transparency and credibility, and placing the necessary importance on the protection of creditors; safeguarding the continuity of international competitions for one season; and monitoring the financial fair play in those competitions. UEFA Club Licensing involves a rolling system of requirements that become more demanding over time. It will be important that those requirements are rigorous enough for these objectives to be achieved.

The LFP, however, argues: 'The financial control system does not seem to meet the objectives that UEFA has set itself' (LFP, 2005: p. 19). The LFP argues that the first phase of implementation is insufficiently forward looking, and that control takes place after the event, reducing the overall impact. The second phase, due to be implemented in 2008/09, does however take into account the need to have budgeted accounts for forthcoming seasons as well as historical information.
Whilst it is important that the criteria of UEFA Club Licensing are stringent enough to make an impact, so is effective implementation.

Again the LFP draws attention to the drawbacks of the current system in place, questioning the delegation of implementation from UEFA to the national associations: it is 'very difficult to guarantee fair treatment for clubs without a common control commission … even if they are acting in good faith, national associations, for historical or cultural reasons, working in line with an identical process, may pass a different judgement on a similar case' (LFP, 2005: 21-22). UEFA has sought to counter the problems posed by delegation to the national associations by introducing a programme of certification. The objective is to ensure that consistency and equal treatment is applied by the licensors (the national associations) who provide licenses to clubs (UEFA, 2005a). However, national associations may in turn delegate control further to the respective league.[5] Given that the league is representative of the clubs, there may be pressure against effective implemention, to the possible detriment of their own members.

Decisions need to be taken not just at the most local level, but at the most appropriate level. The clubs are operating in an increasingly pan-European environment and that means that a greater degree of centralised control regarding the regulatory framework is now desirable. In order to achieve this, the LFP argues in favour of a 'European financial control commission for clubs' (LFP, 2005: p. 25) – an idea that certainly merits consideration.

3.3 The 'homegrown' player initiative

UEFA has also introduced a regulation into its clubs competitions that requires the following:

- Squad size is limited to 25
- Minimum number of local trained players, implemented gradually as follows:

i) Season 2006/07: 4 'local trained' players
ii) Season 2007/08: 6 'local trained' players
iii) Season 2008/09: 8 'local trained' players

'Local trained' players may be trained either by clubs or within the same national association, provided that no more than half the local trained players are 'association trained'. A 'club trained' player is defined as having been registered with a club for three seasons between the ages of 15 and 21. An 'association trained' player is defined as being registered for 3 years with the club or other clubs affiliated to the same national association. Clubs are allowed to add an unlimited number of young players to the squad of 25 providing they are under-21 and have been registered with the club in question for 2 years since the age of 15.

UEFA's justification focuses on the need to promote the development and training of young players. This is evident in the declaration of the UEFA Congress this year (see Appendix 2). For example, UEFA argues that 'football clubs have an important social and educational role in their local communities' and that the

[5] 'Under certain conditions the national association may fully delegate licensing responsibilities to an affiliated league, however, the national association is still fully responsible vis-à-vis UEFA for the licensing project as such' (UEFA, 2003: p. 14).

'nurturing of local talent is not only beneficial for football as a sport' but also 'for society as a whole'. UEFA also argues the stipulations will 'help to provide a pool of playing talent in every European country and can also help to increase the quality of, and competition between, national teams' (UEFA, 2005b). Crucially, UEFA argues: 'the main aim is to get clubs to train more players themselves and to help ensure that football remains a sporting contest, not just a "buying" contest for the best players' (UEFA, 2005c).

Whilst this regulation applies to clubs competing in UEFA competitions, UEFA does not compel the national associations to enforce the rule at a domestic level. UEFA does, however, recommend that this should be done; arguing that it is a 'sports rule that should, in principle, be applied uniformly across European football' (UEFA, 2005c). The majority of UEFA's member associations have stated their support and their intention to incorporate the rule into domestic leagues. The FA, under pressure from the FAPL has failed to do this. The FAPL made a number of arguments, namely: the new rules constituted a 'restraint of trade'; the rules were contrary to European law; and that the new rules would dilute the quality of the FAPL.

Whilst the quality of these arguments is debateable, the FA's decision not to apply these rules to the FAPL is a perfect illustration of both the excessive influence of the FAPL, and also the problem with the principle of 'subsidiarity'. Whilst the proposals received almost unanimous support from the UEFA Congress in Tallinn in April, the FA chairman Geoff Thompson made representations on behalf of the FAPL. Whilst the impact of the ruling would, of course, have impacted most heavily on the FAPL, the impact of the ruling goes well beyond the interests of the FAPL.

To give the FAPL sole jurisdiction over whether to implement the rule is therefore inappropriate and highlights the problem with applying subsidiarity. Firstly, the ruling was designed with a number of objectives, including to assist national team football, as well as club football. Additionally, the FA's decision not to support proposals that would increase the opportunities of more of its clubs, and more of its young players to compete seems perverse. This issue is one illustration of how, in football, very few decisions relate solely to one organisation or interest. The trends which were the catalyst for this new regulation were pan-European, including Bosman and the growing concentration of wealth and talent in a small number of countries. UEFA developed a pan-European response for its own competitions. In order to be fully effective, however, the measure needs to be implemented across the board – as recommended, but not compelled, by UEFA.

3.4 Summary: 'subsidiarity' and the boundaries of regulation

A number of issues have caused the need to re-evaluate boundaries of regulatory responsibility – including the Bosman ruling, the development of broadcasting technology, the concentration of wealth in a small number of national markets, and the development of the UEFA Champions League. These have radically transformed the environment in which both European and domestic competition takes place. The consequences have been a declining balance in domestic competition, the increasing dominance of a small number of clubs in domestic competition, and the concentration of success amongst of a small number of clubs in the European context. The growth in importance of the European context requires a re-evaluation of regulatory responsibility. The principle of 'subsidiarity' needs to be applied judiciously. It cannot simply mean 'devolution' to the organisations on which regulation will most likely impact. The national and international structures of football are based on interdependence rather than organisational autonomy and a rule or regulation that most readily appears to impact on one stakeholder can also affect others. Subsidiarity must therefore mean that decisions are taken at the most *appropriate* level. UEFA's introduction of Club Licensing and the 'homegrown' players rule – and the recommendation that these be applied to domestic competitions – demonstrates that Europe-wide measures and regulation have a vital role to play.

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Chapter 3

FA Premier and Football League clubs

Over the past year governance issues have come to the fore in a number of European countries affecting big clubs and leagues as well as smaller ones. The corporate governance of clubs has been in the spotlight with a number of high profile cases hitting the headlines, including: the battle for control of Manchester United; the financial collapse of Borussia Dortmund; revelations of fraudulent financial practices at Chesterfield in 2000-2001[1] (these were made public when reporting restrictions were lifted in September 2005); and the suspension of the league in Cyprus in April 2005 when clubs went on strike because government funding promised to them in exchange for improved governance was withheld due to lack of progress on governance reforms. These cases illustrate the importance of governance in football.

This chapter reviews recent developments in corporate governance at FA Premier League and Football League clubs, however, many of the issues addressed here have resonance for football clubs and leagues across Europe. To set the context, we start by reviewing recent trends in ownership and risk. Section one examines the rise and fall of the stock market model for football following the de-listing of three more clubs in the last year and the transfer of Tottenham's listing from the London Stock Exchange (LSE) to the Alternative Investment Market (AIM). These changes are considered against the background of increased risk associated with a decline in competitive balance, rising revenue streams and greater income inequality, falling attendances at some clubs and uncertainty over the value of the next TV deal. Sections two and three provide analysis of trends in compliance with company law and corporate governance over the past 5 years. The performance of football clubs is benchmarked with the corporate governance performance of companies listed on the LSE. Section two also includes a discussion of the government's White Paper on Company Law Reform published in March 2005 and section three reviews the requirements of the latest Code of Corporate Governance which will come into effect for *all* LSE-listed clubs reporting after October 2005. Section four deals with strategic issues and enterprise governance, while the final section draws some conclusions and makes a number of policy recommendations.

[1] The Chairman at that time, Darren Brown, has been sentenced to four years imprisonment for admitting two charges of fraudulent trading; a further 14 charges remain on the file.

1. Ownership models: the rise and fall of the football PLC

The takeover and subsequent de-listing of Manchester United has raised old questions about the relative merits of the stock market flotation of clubs. The battle for the control of Manchester United highlighted the fact that companies listed on the stock exchange are vulnerable to takeover. As soon as the new owners gained control of the club it was de-listed from the London Stock Exchange, with both the new Chair and the Chief Executive stating that private ownership had advantages over the stock market model. So what are the relative merits of private versus listed companies and how suitable is either model for football clubs?

The stock market model

Proponents of the stock market model of ownership and governance argue that it has three main features that are advantageous. First, it offers companies the possibility of raising equity finance via share issues on an open and well-established market. Second, it prioritises shareholders over other stakeholders. Companies listed on the stock market are said to maximise shareholder value, which is the combined value of dividends and capital gains from holding shares. Provided shareholders are well informed about company performance, the stock market model puts boards of directors under pressure to maximise profits. If a company does not deliver adequate returns, shareholders will vote with their feet and sell their shares. Thirdly, stock market flotation provides a market for corporate control. Provided shareholders are well informed about the actual and potential performance of companies in which they own a stake, the stock market acts as a discipline on boards of directors: companies (boards) that do not maximise profitability and shareholder value will be taken over by new owners who can spot how to turn the company around and increase profitability. Poor financial performance is punished by takeover.

Considerable research has been undertaken on the efficacy of the stock market model compared to other models of ownership and governance. This has pointed to a number of weaknesses. First, in order for the stock market to act as an effective discipline on boards of directors, shareholders must be well informed about what is going on inside the company. Recent corporate scandals, such as Enron and Tyco illustrate that shareholders often do not know what is going on until it is too late. To guard against this risk, stock markets have tightened existing codes of corporate governance, such as the Combined Code that are designed to promote openness and transparency. Stock market flotation requires clubs to comply with the code or explain why they have not done so. Whether this leads to good governance depends on the extent to which the company (or club) internalises these practices and embeds them in company culture. A criticism of the Combined Code is that companies may adopt a tick-box approach without integrating any of the practices in a meaningful way into company procedures. Second, the prioritisation of shareholder value has been said to lead to short-termism by mitigating against investment because listed companies are under pressure to distribute profits to shareholders in the form of dividends rather than reinvesting profits for long-term development and growth. Finally, research on takeovers has shown that often it is the better performing companies that are takeover targets rather than poorly performing companies – this was certainly the case at Manchester United which was the leading football PLC in terms of its financial performance. Similarly a number of studies have shown that profitability tends to decrease post-merger which is the opposite of what the stock market model predicts.

Football clubs and the stock market model

Football clubs were initially established as ‘clubs’ and in some countries they remain precisely that, for example, Barcelona football club is a members association. However, in England clubs began to be transformed into limited liability companies in the Victorian era, in response to the growing popularity (gates) and associated commercialisation of the game. Despite the fact that most clubs in England adopted the legal form of the limited liability company, football clubs may be distinguished from normal companies by virtue of the fact that they have both sporting and commercial objectives – glory and profit - listed in their constitutions (Memorandum and Articles of Association). In addition many clubs also have charitable objectives. In this way clubs are unlike most run of the mill companies that simply have commercial objectives.

To ensure that sporting objectives were prioritised the FA introduced Rule 34 in 1892. The rule limited the amount of dividends that could be distributed to shareholders to ‘5 per cent of the value of the shares’.[2] Thus, Rule 34 was designed to limit rampant commercialism and ensure that clubs kept sight of their sporting objectives whist recognising that they were commercial companies. Rule 34 had the effect of encouraging reinvestment in the game. The rule was observed for almost a century, though in 1981 the limit on the payment of dividends was increased from 5 to 15 per cent.

In the 1980s and 90s a second wave of commercialisation occurred in football associated with the widely anticipated growth in revenue from the sale of broadcasting rights and the development of the pay TV market. In order to capitalise on the prospect of a pay TV market for football a number of clubs wanted to float on the stock market. Rule 34 represented a stumbling block to the stock market flotation of clubs because purchase of shares in a company whose dividend payments are limited to 15 per cent of the face value of the shares might be unattractive, and one of the purposes of the stock market is to facilitate payment of dividends. Rule 34 was circumvented via the formation of holding companies and the clubs that were floated became wholly owned subsidiaries. The holding companies declared themselves free from FA rules: clubs could transfer profits to the holding company and these could be distributed to shareholders.

The stock market flotation of clubs allowed a few individuals to extract millions from the game. For example, Martin Edwards (and family), whose initial investment in Manchester United was £840,000, had cashed in £93 million of his ownership stake by 2001-02.[3] However, the flotations did not usher in a new era of enhanced financial management,[4] or lead to massive investment funds being raised via the stock market. For example, during its time as a PLC, Manchester United raised £23.3 million of investment funds via the stock market but paid out £61.7 million in dividends.[5] Nor did the increased revenue coming into the Premier League from television income lead to increased profitability. For the most part, the additional revenue was spent on players’ wages. Taken as a whole the Premiership clubs make a pre-tax loss, and while revenue has been rising, losses have been increasing (see Figure 3.1). The dual objectives of clubs – sporting glory/profit – means that the stock market model is not the most appropriate ownership

[2] Conn (2004, p. 24).

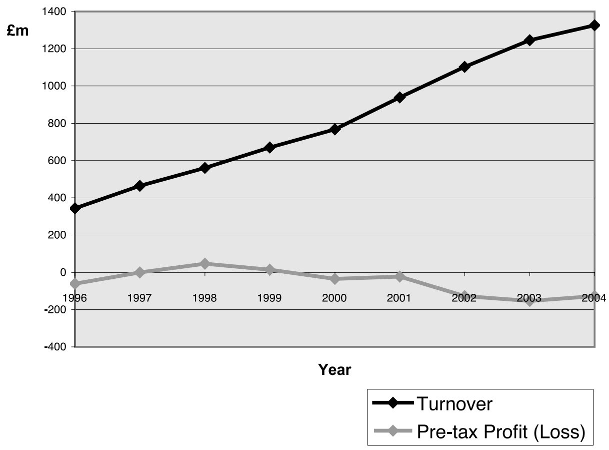
[3] Conn, D (2005) *The Independent*, 19th February.

[4] A number of listed clubs (for example, Leeds, Leicester, Chelsea) ran into financial difficulties and de-listed, and not all listed clubs complied with all parts of the combined code, though Manchester United was one the best performers in this regard. However, during the Glazer takeover, all of the independent non-executive directors were removed or resigned. We do not yet know whether the company will be conducting regular reviews of the risks facing the company, which are considerable given the current level of debt.

[5] Conn, D (2005) *The Independent*, 19th February.

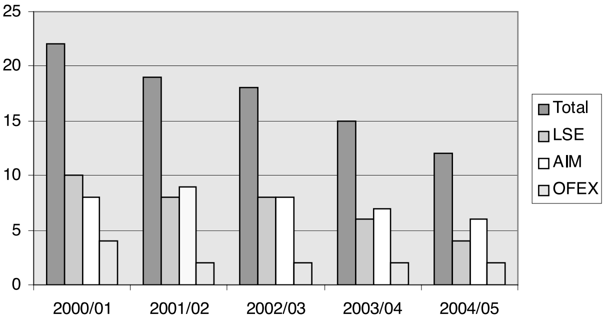
model since it is predicated on the prioritisation of (distributed) profit over other objectives. In practice, many clubs that floated did not follow a stock market driven, profit maximisation model - rather they prioritised sporting success over pre-tax profits; hence the increased revenue coming into the game was not translated into increased profits but players' salaries. What was distinctive about the new commercial era of the 1990s was that the sums of money coming into the game were much bigger and the distribution of revenue was more unequal resulting in a widening income gap between leading and lagging clubs. These two factors have led to a significant increase in risk and uncertainty in the sector which we discuss below.

Figure 3.1 Premier League Clubs 1996-2004: Revenue and Pre-Tax Profit (Loss)[6]



At its peak there were over 20 English clubs listed on the LSE, AIM and OFEX; in 2000 ten of these were listed on the LSE. Almost half of the clubs have since de-listed and there are now just 12 listed clubs (see Figure 3.2); only 4 of these are listed on the LSE. The majority of LSE listed clubs have 'gone private' or switched their listing to less formal markets. Many of the clubs that de-listed did so as a result of financial crisis and/or takeover. Two of the largest clubs to de-list were Chelsea, who ran into financial difficulties, and Manchester United, who were the strongest club financially but were subject to a takeover. In both cases representatives of the new owners have cited the disadvantages of having to pay dividends and be accountable to outside shareholders as reasons for reverting to private ownership.

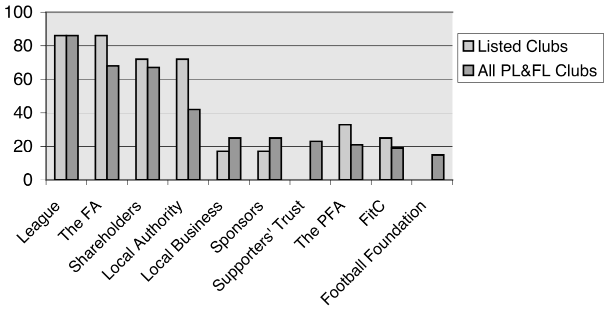
Figure 3.2 The Number of Listed English Clubs by Market: 2000-2005



There are two main reasons why the stock market model is not well suited to football clubs. The first is that football clubs have sporting as well as commercial objectives, which means that they have an incentive to invest their revenue (and potential profit) in players' wages. The second and related point is that the stock market model prioritises shareholders over other stakeholders, but football clubs have a wider set of stakeholders than the average company. In particular, clubs are governed by the rules and regulations of the football authorities and their local authority (a significant number of which own football grounds). They also work closely with local communities. Our survey asked clubs what level of influence various stakeholder groups have over club governance. The results are shown in Figure 3.3 where it can be seen that the FA and League authorities have most influence followed by shareholders and local government. This is true for both listed and unlisted clubs, though the influence of shareholders is slightly higher for listed clubs as compared with all Premier and Football League clubs. It can also be seen that other stakeholders, such as local business, sponsors, supporters' trusts, the PFA, Football in the Community (FitC) and the Football Foundation have a strong influence on governance at 20-25% of clubs. The breadth of clubs' stakeholders and their strength of influence over governance suggest that a stakeholder model of governance is more relevant for football clubs than the stock market model. This point is explored further in Chapter 6.

[6] Source: Deloitte (2005, 2004) and Deloitte and Touche (2003 and various previous issues).

Figure 3.3 Stakeholder Influence on Club Governance: Percentage of Clubs Stating Stakeholders Had a Strong Influence[7]



Before concluding this section it is worth noting that one of the benefits of stock market flotation is that it encouraged a number of clubs to take a more professional approach to corporate governance. Results from our survey have shown that listed clubs outperform all clubs in, for example, business planning, risk management and the use of non-executive directors, although the corporate governance performance of listed clubs is still below that of the LSE listed company sector as a whole. While higher standards of governance are a plus, it is important to recognise that it is not necessary for clubs to float in order to improve governance. The introduction of a code of corporate governance for football by the FA, tailored specifically to the needs and peculiarities of the sector is likely to have a stronger impact on governance standards in the industry than the Combined Code, and would apply to all clubs, not just those listed on the stock market.

1.1 Revenue steams, profitability, risk and redistribution

Figure 3.1 illustrates the growth in revenue enjoyed by clubs over the past decade. Normally rising revenue would be associated with an increase in profitability. However, as Figure 3.1 illustrates, English football has experienced the paradox of rising revenue and declining profitability. One of the key factors underlying this paradox is income inequality. The growth in revenue has not been evenly distributed. Clubs qualifying for European competitions have been able to access additional revenue streams from European match-day and broadcasting income. At the same time, the distribution rules for domestic TV income result in a widening income gap between the top and bottom clubs when revenue increases (the gap would narrow if revenue fell). And the absence of gate sharing means that the big clubs earn more than smaller clubs on match days. All three of these factors have tended to widen the income gap between the top clubs that regularly qualify for European competitions and the rest. Similarly, the end of TV revenue sharing between the Premier and Football Leagues[8] has contributed to a large income gap opening up between the two leagues.

The emergence of significant income gaps between the clubs at the top of the Premiership, and between the Premiership and the Football League has led to a significant increase in risk in the industry. With so much revenue at stake, the difference between finishing 4th or 5th in the Premiership can have a devastating effect on clubs' finances. Likewise, finishing in 18th rather than 17th place can reduce a club's income by millions of pounds. Small differences in football performance over the season are now associated with massive differences in revenue.

The growth in revenue inequality has set up an incentive system that encourages clubs to gamble on success. Spending more on players to secure a top-four place or to avoid relegation may make financial sense if the gamble pays off. But if a club fails to make it into Europe or ends up in the bottom 3, it can be the start of a downward spiral of poor financial performance followed by the need to sell players, leading to a further deterioration in performance on the pitch. The dynamics associated with increased income inequality and risk mean that the football industry is a much tougher one to operate in financially than it was a decade or so ago. It also explains why clubs have tended to invest much of the additional revenue in players; the financial cost of failing to keep up with the top clubs or of relegation is much greater than it used to be, there is therefore more of an imperative to keep up with the pack. However, a number of clubs have failed to make an adequate assessment of the risks associated with higher revenue inequality and have found themselves in severe financial difficulty.

Income inequality reducing competitive balance

The rise in income inequality has also had an impact on competitive balance. Competitive balance refers to balance between the sporting capabilities of teams. The more evenly balanced the competitive strengths of the teams that make up a league, the more uncertain the outcome of each match. Similarly, the more evenly balanced the teams, the more uncertain the outcome of the championship race. In a perfectly balanced league each team would have an equal chance of winning

[7] Those selecting 4 or 5 on a scale of 1-5.

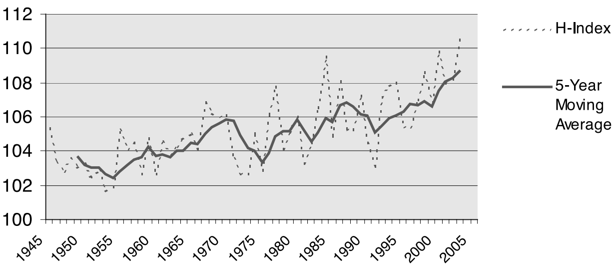
[8] Cross-league revenue sharing ended when the Premier League was formed.

each match and each team would therefore have an equal chance of winning the league title.

Competitive balance is important because, other things being equal, uncertainty of outcome generates interest from supporters and increases demand for watching matches both at the ground and on television (including by subscription and pay-per-view). Lack of competitive balance can make matches and the league championship boring. A league that is not competitively balanced is therefore not maximising potential income from spectators and viewers. Maintaining and promoting competitive balance is therefore important in order to maximise demand for a club's, and the league's, product. This is part of the business logic behind sports leagues adopting regulatory rules to redistribute income and promote competitive balance. Competitive balance is also important to ensure league stability. Unbalanced leagues face increased risks of bankruptcy of lagging clubs and threats of league break-up from new or rival leagues.

Figure 3.4 shows that there has been a trend decline in competitive balance between 1947 and 2005 and that the rate of decline (indicated by a rise in the index) became much steeper in the 1990s (Michie and Oughton, 2004, 2005).

Figure 3.4 H-Index of Competitive Balance: Top-Flight English Football



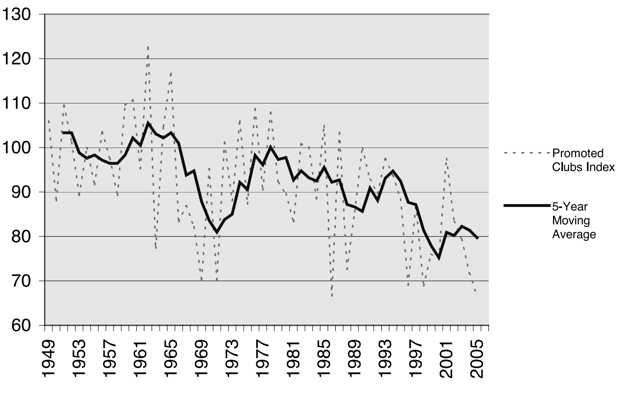
The decline in competitive balance (rise in the index) is associated with:

- a widening gap in wage expenditure between the top 4 teams and the rest, including in 2004 a more than doubling in wage expenditure by Chelsea;
- inequality in broadcast revenue distribution and inequalities in other revenue streams available to the top clubs, especially those qualifying for the Champions League;
- a decline in the effectiveness of the promotion and relegation system as a means of promoting competitive balance associated with the widening income gap between the Premier League and the Championship.

The last bullet point is illustrated in Figure 3.5 which shows the share of points won by newly promoted clubs compared to what they would win in a perfectly balanced league. If the newly promoted clubs were able to compete on equal terms the index would take a value of 100. It can be seen that their share has been falling and reached an all-time low in 2005 as measured by the index (dotted line). In short, the newly promoted clubs are finding it increasingly difficult to compete in the Premier League, largely as a result of the widening income gap between the Premier League and the Championship (old Division 1). The peak in 2001 reflects the newly promoted Ipswich Town's 5th place finish on their return to the top-flight. If it continues, the strong performance of some of the newly promoted clubs this season may lift the index. However, it is clear that there has been a trend decline since the late 1970s and that the pace of decline accelerated after 1993.

Competitive balance is important because if a league becomes too predictable matches become boring and attendance may fall. This is especially the case if the outcome of the league is determined early in the season. Many factors determine attendance and viewing figures, not least, price. However, it now seems to be the case that attendance at Premiership matches has peaked and gates, though healthy by international standards, have been falling for the past 3 seasons.

Figure 3.5 Promoted Clubs Index of Competitive Balance: Top Flight English Football



1.2 Attitudes to redistribution

The increased risk associated with the widening income gaps between leading clubs and the rest, and between the Premiership and the Championship, together with the decline in competitive balance have prompted a number of commentators both within and without the industry to call for greater redistribution of revenue. We asked clubs whether they were in favour of greater redistribution: (a) within their league; and (b) from the Premiership to the Football League. The results are presented in Table 3.1.

Table 3.1 Attitudes Towards Greater Redistribution of TV Income

	Percentage of Respondents	
	Premier League Clubs	Premier and Football League Clubs
Would you favour greater redistribution of TV revenues within your league?		
Yes	60	57
No	40	41
Don't Know	0	2
Would you favour greater redistribution of TV revenues between the Premier League and the Football League?		
Yes	40	80
No	50	18
Don't Know	10	2

It can be seen that a clear majority of respondents - 60 per cent of Premier League clubs and 57 per cent of Premier and Football League clubs - are in favour of greater redistribution within their league.

In terms of redistribution from the Premiership to the Football League, there is a marked difference of opinion in the Premiership compared with clubs generally. 80 per cent of Premiership and Football League clubs are in favour of greater redistribution across leagues and only 18 per cent are opposed. In contrast, 50 per cent of Premiership clubs are against redistribution across leagues, though it is worth noting that 40 per cent are in favour and a further 10 per cent 'Don't Know'.

In summary, there is considerable strength of support from clubs responding to our survey for greater redistribution within and across leagues. The only exception is Premiership Clubs' attitudes for greater redistribution to the Football League, but even in this case the results for the Premiership are fairly split.

Impact of Greater Redistribution

As discussed above the effects of greater inequality in revenue include increased risk, making it more difficult for clubs to balance their sporting and commercial objectives by successfully managing their financial and sporting performance. We asked clubs whether greater redistribution of TV revenue would help or hinder these problems. The results are presented in Table 3.2. It can be seen that 70 per cent of Premiership clubs think that greater redistribution would help reduce risk; 60 per cent think it will help them financially and 56 per cent believe it will help them compete on the field. The combined results for Premier and Football league clubs show slightly stronger positive effects: 89 per cent of clubs feel that greater redistribution would help them financially, 85 per cent believe it will help reduce risk and 78 per cent state that it will help them compete on the field.

Table 3.2 The Impact of Greater Redistribution of TV Revenue

	Percentage of Respondents	
	Premier League Clubs	Premier and Football League Clubs
Would greater redistribution of TV revenue help or hinder your club's financial position?		
Help	60	89
Hinder	30	9
Neither	10	2
Would greater redistribution of TV revenues help or hinder your club reduce risk?		
Help	70	85
Hinder	20	6
Neither	10	9
Would greater redistribution of TV revenue help or hinder your club to compete on the field?		
Help	56	78
Hinder	33	9
Neither	11	13

These results show that clubs believe that greater redistribution will help them manage their finances, reduce risk and compete on the field. However, if these effects are to be realised it is important that clubs adhere to high standards of corporate governance. Without accompanying improvements in corporate governance there is a danger that redistributed revenue will be used to subsidise poor financial management rather than to help clubs compete on the field.

2. Compliance with company law and corporate governance

Over the past 5 years the government has undertaken a review of company law[9] and carried out a number of related consultation exercises. Progress on the review

[9] See DTI (2000) and the Company Law Review Steering Group (2001).

has been slow but earlier this year the government published its Company Law Reform White Paper (DTI, 2005) followed by drafts of its Company Law Reform Bill (CLRB). There are a number of proposed changes that will affect many football clubs, particularly in relation to Annual General Meetings and the circulation of members' resolutions. In particular, the requirement for private companies to hold an Annual General Meeting (AGM) and to lay accounts and appoint an auditor at the AGM has been waived in the White Paper: the *status quo* will be that there is no need for private companies to hold an AGM or lay their accounts and appoint an auditor at the AGM unless they choose to do so. In our view this is a retrograde step that will reduce transparency within the sector. The AGM is the one occasion per year when the members (shareholders) of a company have a formal opportunity to see the accounts and to ask questions of the directors and contribute to the agenda – it is an important mechanism that helps promote transparency and dialogue.

Despite representations from leading experts on company law and corporate governance, including Pensions Investment Research Consultants (PIRC), the CLRB does not propose to reduce the threshold for shareholders to circulate members' resolutions. As PIRC notes,

> "The single most important reform of AGMs would be to make it easier for shareholders to submit their own resolutions and make their own nominations to the board … PIRC considers that shareholder resolutions are an integral part of the corporate governance process … [as without them] there is little or no member influence on the issues to be debated. This contributes to sterile and formulaic events. The US experience of shareholder resolutions has meant that management do not have sole control over the issues …. Greater shareholder access may also act as a counterweight to the notable lack of diversity in British boardrooms. Therefore, we remain disappointed with the decision to maintain share ownership thresholds. We believe this prohibits greater shareholder participation in the AGM agenda via the lodging of shareholder resolutions. The current thresholds can only be achieved by the very largest institutional investors or at great inconvenience by a hundred smaller shareholders." (PIRC, 2005, p. 7).

PIRC recommended reducing the threshold from 5% to 1% of a quoted company's issued shares but this recommendation has not been included in the draft CLRB.

The draft CLRB also includes a clause stating that companies may apply to the court to prevent shareholders circulating resolutions on the grounds that the resolution is designed to generate publicity for defamatory matter. While the spirit of the CLRB is well intentioned, there is a danger that companies may seek resort to the courts to prevent legitimate resolutions going forward, thus making it harder for shareholders to put resolutions forward. In addition, the draft CLRB has stopped short of requiring companies to pay for the circulation of shareholder resolutions at public *and* private companies. Only in the case of quoted companies is there a clause that states that, 'A company may not require the requisitionists to pay its expenses in complying' with the company's obligation to circulate shareholders' resolutions. However, as PIRC (2005, p. 8) have pointed out this wording is vague and may be interpreted as giving companies the option to charge. We agree with PIRC that this clause should be clarified to remove any doubt about its meaning.

At present the duties of directors are grounded in case law by reference to decisions taken in cases that have gone to court. An important change proposed in the White Paper is that there should be a statutory statement of directors' general duties.

> "The statement will be drafted in a way which reflects modern business needs and wider expectations of responsible business behaviour. The CLR proposed that the basic goal for directors should be the success of the company for the benefit of its members as a whole; but that, to reach this goal, directors would need to take a properly balanced view of the implications of decisions over time and foster effective relationships with employees, customers and suppliers, and in the community more widely. The government strongly agrees that this approach, which the CLR called "enlightened shareholder value", is most likely to drive long-term company performance and maximise overall competitiveness and wealth and welfare for all." (DTI, March 2005, p.20)

The introduction of a statutory statement of directors' duties is to be welcomed, as is the objective of the CLR programme to enhance shareholder engagement. As the White Paper makes clear, "companies work best where there is a good understanding and effective engagement between those who own companies and those who run them on their behalf." (DTI, March 2005, p. 12).

Shareholders of companies have certain rights and one of the key mechanisms via which they can engage with companies is through understanding the objectives of the company as set out in its Memorandum and Articles of Association and gaining access to the share register in order to influence the agenda at AGMs and put shareholder resolutions to the meeting.

Over the past 5 years we have asked clubs whether they would provide a copy of the share register to shareholders that request it. The degree of compliance with this part of company law has increased from 67 per cent of clubs in 2001 to 89 per cent of clubs in 2005. However, it is disconcerting that around 11 per cent of clubs do not appear to be aware of their obligations under company law.

There has been a welcome increase in the number of clubs stating that they would provide the share register in electronic format, up from 16 per cent in 2004 to 33 per cent in 2005.

The degree of compliance with company law is higher for provision of the Memorandum and Articles of Association (M&AA), with 93 per cent of clubs responding to our survey stating that they would provide a copy of this on request, though the number of clubs stating that they would provide this electronically has fallen to just under 10 per cent.

A small number of clubs stated that they would charge shareholders for a copy of the share register and/or the M&AA. Although companies are allowed to charge at the statutory rate, this is widely regarded as bad practice, and given that the statutory rate is very low (5 pence in the case of the M&AA) it would appear that there is a small minority of clubs that are unaware of company law in this regard.

The Annual General Meeting (AGM)

Despite the proposed change in Company Law to allow private companies not to hold an AGM, all clubs responding to our questions on the AGM bar one indicated that they held an AGM. This suggests that inclusion of a requirement for football clubs to hold an AGM in the FA's proposed Code of Governance for clubs would impose little regulatory cost on clubs as a whole and would preserve and enhance transparency. The AGM and a club's Annual Report are two of the main mechanisms via which clubs disclose information on the financial performance and strategy of the club. The AGM is also used to elect directors and to vote on directors' pay. For the AGM to be an effective vehicle to engage shareholders it is important that sufficient notice of the AGM and adequate information are provided to enable shareholders to participate and to make informed judgements about how the company is run. Results from this year's survey indicate that this is an area where there has been a noticeable improvement in corporate governance.

In terms of providing adequate notice of the AGM, 100 per cent of clubs responding to our survey stated that they provided at least 20 days notice and 94 per cent of respondents stated that an Agenda was circulated in advance of the meeting. Both of these figures are an improvement on the previous year's. The CLR White Paper has proposed changing the period of notice for an AGM for private companies from 21 to 14 days. PIRC have argued that the period of notice should be

Table 3.3 Disclosure of Information to Shareholders

	Percentage of Respondents				
	2001	**2002**	**2003**	**2004**	**2005**
Clubs stating that they would provide a copy of the Share Register in paper or electronic format	67	79	86	81	89
Clubs stating that they would provide a copy of the Share Register in electronic format	Not Available	Not Available	18	16	33
Clubs stating that they would provide a copy of the Memorandum and Articles of Association in paper or electronic format	77	95	88	93	93
Clubs stating that they would provide a copy of the Memorandum and Articles of Association in electronic format	Not Available	Not Available	8	19	9

Table 3.4 Board Use of the AGM to Disclose Information to Shareholders

	2001	2002	2003	2004	2005
Board gave at least 20 days notice of the AGM	NA*	87	87	94	100
Board circulated Agenda for the AGM in advance	NA*	91	84	90	94
Board circulated Annual Report or Accounts before the AGM	70	95	85	83	98
Directors' histories/resumes disclosed and/or circulated before the AGM	NA*	NA*	17	31	23
Directors' attendance records disclosed and/or circulated before the AGM	12	7	8	11	6
Details of Directors' pay provided before or voted on at the AGM (Listed Clubs)	10	4	36	36	43

* NA denotes Not Available

increased, at least for large quoted companies. In view of the fact that all clubs holding an AGM gave at least 20 days notice it would make sense for the FA Code of Governance to stick to this benchmark.

There has been a fall in the proportion of clubs that provided details of directors' histories and experience, down from 31 per cent in 2004 to 23 per cent in 2005 – this may reflect the fact that a number of clubs have de-listed. Disclosure of this information is important so that shareholders can make informed judgements about the election of directors to the board. Moreover, the disclosure of directors' biographies in football is low compared to companies listed on the LSE where the disclosure rate was 93 per cent. Similarly there has been a fall in the proportion of respondents providing information on the attendance records of directors, down from 11 per cent last year to 6 per cent this year with the vast majority of clubs not disclosing how many directors actually turn up for meetings. The final area of disclosure and consultation relates to directors' pay. This is an area where there has been a marked improvement in performance. Most of the improvement is attributable to a change in the law on 31st December 2002 that required companies to produce a remuneration report to be voted on at the AGM. The directors' Remuneration Report Regulations require all listed British companies to produce a remuneration report to be voted on at their AGM. In 2001 only 10 per cent of listed clubs provided details of, or voted on, directors' remuneration at the AGM. In 2005 the figure rose to 43 per cent for listed clubs, up from 36 per cent in 2004.

Dialogue with Shareholders and Stakeholders

The recent Company Law Reform White Paper (DTI, 2005) states explicitly that good governance requires companies to have effective dialogue with their stakeholders. There are various mechanisms that facilitate this including: the AGM; meetings with shareholders and stakeholders; and the appointment of a senior independent non-executive director available to liaise with shareholders. Our survey shows that in 2005, over half (53 per cent) of clubs had appointed a senior independent non-executive director to facilitate communication; this is up from 34 per cent in 2004.

We asked clubs and supporter trusts about dialogue between the club and its shareholders. Table 3.5 illustrates that 37 per cent of clubs state that it is 'not at all difficult' consulting with shareholders, while 31 per cent of supporters' trusts state that the club is 'not at all effective' at consulting with shareholders. This difference of opinion between clubs and their stakeholders reflects a similar gap observed in the business sector as a whole. In 2004 Blue Rubicon published a survey demonstrating the gulf between business and its investors. "It showed that half of the companies believe they work actively to anticipate the City's concerns and maintain dialogue with investors but that only 3 per cent of investors agree with that view." (PIRC, 2005, p. 5). While football is clearly not the only industry where shareholders register a lack of effective dialogue, there is still a long way to go to improve engagement between clubs and their shareholders.

Table 3.5 Dialogue/Consultation Between the Club and Shareholders

Percentage of Respondents			
Club Survey	**2005**	**Supporter Survey**	**2005**
How difficult do you find consulting with shareholders?		**How effective is your club at consulting with shareholders?**	
Not at all difficult	37	**Not at all effective**	31
Moderately difficult	63	**Moderately effective**	61
Very difficult	0	**Very effective**	8

The Company Law Reform White Paper explicitly recognises the role of stakeholders including employees and customers. The business-customer relationship in football is different to that in other lines of business as supporters do not have the same degree of exit. In most industries, if customers are unhappy with a product they can simply switch suppliers. In football, supporters do not generally switch allegiances. Since they do not have 'exit' it is important that supporters have 'voice' and that clubs recognise this by encouraging dialogue with supporters. We asked clubs how difficult they found it consulting with fans. We also asked supporters' trusts how effective clubs were at maintaining a dialogue with fans. Table 3.6 provides an analysis of the effectiveness of clubs' dialogue with fans from the perspective of both fans and clubs. Over the past 2 years there appears to be a greater awareness among clubs that maintaining effective dialogue is likely to involve some degree of difficulty. In 2005, 73 per cent of clubs recognised that maintaining dialogue with supporters is 'moderately difficult' and 73 per cent of supporters' trusts stated that their club was 'moderately effective'. However, there has been a divergence in club and supporters' trust views at the extremes of the scale. From the fans' perspective the percentage of supporters' trusts stating that clubs were 'not at all effective' rose from 8 per cent last year to 25 per cent this year. In contrast, no club stated that they found it 'very difficult' communicating with fans.

A similar difference in perspective arises in regard to the effectiveness of clubs' customer charters. In 2005, 28 per cent of clubs responding to our survey stated that they had 'no difficulty' in implementing their customer charter, 72 per cent stated that they had only 'moderate difficulty' and no clubs reported that implementation was 'very difficult' – see Table 3.7. In terms of the effectiveness of the charters, results from our supporters' trust survey show that no supporters' trust found the customer charter to be 'very effective' at protecting and promoting the interests of fans and 21 per cent stated that the charter was 'not at all effective'. In contrast, our results from clubs show that clubs' rate the effectiveness of the customer charter more highly than supporters: 12 per cent rate the charter as 'very effective', 86 per cent rate it as 'moderately effective' and only 2 per cent of clubs rate it as 'not at all

Table 3.6 Dialogue/Consultation Between the Club and Fans*

	Percentage of Respondents				
	2001	**2002**	**2003**	**2004**	**2005**
Club Survey					
How difficult do you find consulting or maintaining a dialogue with fans?					
Not at all difficult	35	46	50	35	27
Moderately difficult	63	55	50	63	73
Very difficult	0	0	0	2	0
Supporter Survey					
How effective is your club at maintaining a dialogue with fans?					
Not at all effective	26	17	26	8	25
Moderately effective	53	58	60	85	73
Very effective	17	22	14	7	3

* Figures may not sum to 100 per cent due to rounding.

effective'. Despite these differences in opinion between clubs and trusts it is clear that over the last few years there has been a marked increase in supporters' awareness of the charters: the proportion responding 'Don't Know/Not Applicable' has fallen from 54 per cent in 2002 to 15 per cent in 2005. There has also been an increase in the proportion of trusts stating that the charter is 'moderately effective' – up from 33 per cent in 2003 to 64 per cent in 2005.

In 2005 the proportion of supporters' trusts that used the charter to enforce good practice increased to 32.5 per cent in 2005 from 17 per cent in 2004. While the results for 2005 record improvements in effectiveness and awareness, it is still the case that around a third of supporters responding to our survey either do not know about the charter or feel that if offers no protection to fans. Around two thirds report that it offers moderate protection suggesting that, at best customer charters offer a weak protection mechanism for supporters. Last year we argued that one area for improvement would be to encourage the use of clear, measurable standards of improvement of service into the charters. There has been a slight improvement in this regard: 82 per cent of clubs state that these are now incorporated into the charter, compared with 73 per cent in 2004.

Table 3.7 The Implementation and Effectiveness of Customer Charters*

	Percentage of Respondents				
	2001	**2002**	**2003**	**2004**	**2005**
Club Survey					
How difficult is it for you to implement the customer charter?					
Not at all difficult	25	40	29	29	28
Moderately difficult	57	59	62	68	72
Very difficult	0	0	0	2	0
Not applicable	17	2	10	2	0
Supporter Survey					
How effective is your club's customer charter at protecting and promoting the interests of fans?					
Not at all effective	20	8	26	19	21
Moderately effective	33	34	33	42	64
Very effective	2	4	4	2	0
Not applicable/ Don't know	24	54	37	32	15
Club Survey					
How effective is your club's customer charter?					
Not at all effective				6	2
Moderately effective				81	86
Very effective				10	12
Not applicable/ Don't know				2	0

* Figures may not sum to 100 per cent due to rounding and some missing responses.

Dialogue with Supporters' Trusts

The number of supporters' trusts at Premier and Football League clubs continues to grow. There are now trusts at 65 clubs and 25 of these have representation on the board. At clubs where there is a supporters' trust meetings take place on a monthly or more regular basis at around two thirds of clubs (see Table 3.8), while 30 per cent of clubs state that they meet with their trust on a weekly or daily basis.

Over half (57 per cent) of clubs responding to our survey stated that there was a strong or very strong link between the club and their supporters' trust. In addition, 50 per cent of clubs indicated that clubs had a moderate (27 per cent) to strong (23 per cent) influence over club governance.

Figure 3.6 presents results from our club and trust surveys on the importance of various trust objectives. The most important objectives of trusts are: involvement in the running of their club; strengthening bonds between club and community; acquiring a collective shareholding and obtaining a supporter-elected director on the board. It can be seen that this ranking differs from that of clubs. Clubs clearly value

Table 3.8 Clubs, Supporters' Trusts and Frequency of Meetings

Club Survey **If there is a supporters' trust at your club, how often do you meet?**			
	2003	**2004**	**2005**
More than once a week	0	7	13
Weekly	28	31	17
Monthly	28	24	33
Bi-monthly or Quarterly	14	21	17
Other	24	10	10
Infrequently	7	7	10

trust objectives that benefit the club, such as encouraging support, fundraising and building links between the club, supporters and the community. However, they are less enthusiastic about supporters' trusts attaining a shareholding and gaining greater involvement in the running of the club. This suggests that there needs to be a greater understanding of the trust movement by clubs: for example, if trusts are to be successful in building links between the club, supporters and the community, they need greater involvement in the running of the club.

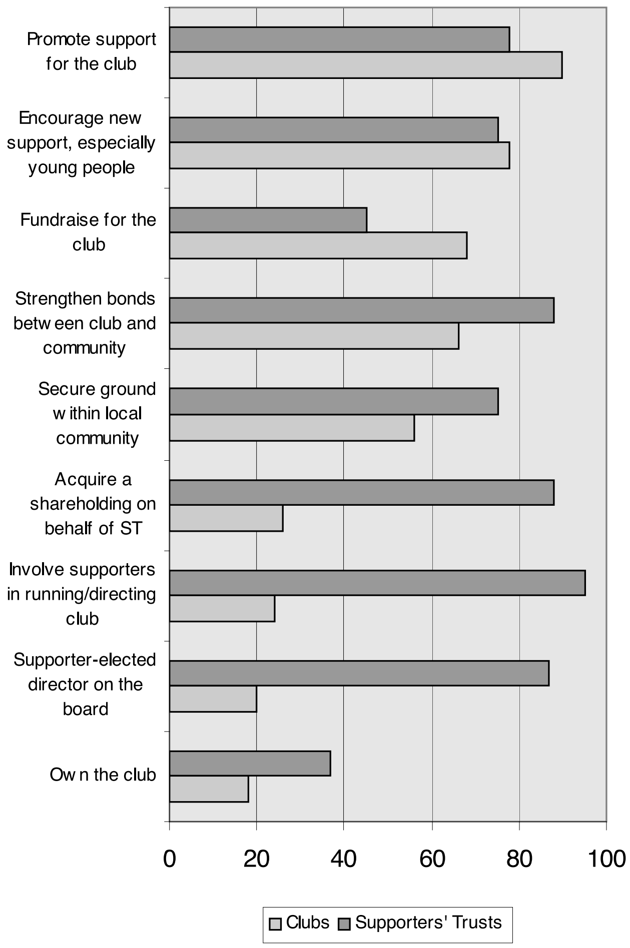
3. Corporate governance and the Combined Code

In this section we review the extent to which football clubs comply with best practice corporate governance as set out in the Combined Code. The code is designed to set a benchmark for corporate governance and to promote transparency. Companies listed on the London Stock Exchange must either comply with the provisions of the code or issue a public statement explaining the rationale for each and every case of non-compliance. The idea is that if a company has a good reason for not complying with an aspect of the code it can explain this to shareholders and stakeholders who can then make an informed judgement about the impact of non-provision on the company's corporate governance and performance.

Our analysis is based on compliance with the 1998 Combined Code. The revised 2003 Combined Code came into effect for reporting years commencing on or after 1st November 2003 but at the time of compiling this report not all companies had reported according to the new code.[10] The new code incorporates the

[10] Our analysis is based on results/reports that are collected in May to August of each year. Hence, the only reports available for companies reporting in September and October 2005 are their 2004 reports. The financial year for these reports would have commenced before 1st November 2003 and therefore the corporate governance statements in these reports are only required to comply with the 2003 Code.

Figure 3.6 Club and Trust Ratings of the Importance of Trust Objectives: Percentage of Clubs/Trusts Rating Objective as Important or Very Important



findings of the Turnbull Committee on internal control, the Smith Group on Audit Committees and the Higgs Review on the role of non-executive directors. These amendments were designed to strengthen the operation of the code and provide guidance on how to embed good governance practices into company procedures. Both the 1998 and the 2003 codes are based around 5 sets of principles relating to:

A. The Board of Directors (Nominations Committee)
B. Directors' Pay (Remuneration Committee)
C. Accountability and Audit (Audit Committee)
D. Relations with Shareholders
E. Institutional Shareholders

Table 3.9 Listed Clubs: FA Premier and Football League

LSE	AIM	OFEX
Aston Villa	Birmingham City	Arsenal Holdings
Newcastle United	Charlton Athletic	Manchester City
Sheffield United	Millwall Holdings	
Southampton Leisure	Preston North End	
	Tottenham Hotspur	
	Watford Leisure	

The combined code is only a requirement for companies listed on the London Stock Exchange. However, it is widely regarded as best practice and many companies listed on AIM and OFEX, as well as a number of private companies, issue statements of corporate governance based on the code. As discussed in section one, the number of listed clubs on the three main share markets has fallen again over the past year. Table 3.9 shows that there are now just 12 listed clubs.

The Board of Directors and the Nominations Committee

The board of directors is responsible for setting the strategic direction of a company and for ensuring that the risks facing the company are effectively assessed and managed. For a board to work effectively it is important that there is a separation of powers between the Chair, who runs the board and the Chief Executive who runs the business. It is also important that there is a balance of executive, non-executive and independent non-executive directors (NEDs and INEDs) such that no group can control the board or hamper its effective operation. NEDs and INEDs are important because they have distance from the day-to-day running of the company and can provide an external/independent perspective on company matters.

The Combined Code (1998) states that NEDs should make up at least one-third of the board and that a majority of the NEDs should be independent. It can be seen from Table 3.10 that 92 per cent of listed clubs and 76 per cent of all Premier and Football League clubs comply with the provision that at least a third of the board should be non-executive directors. Use of independent non-executive directors is less prevalent with only 50 per cent of listed clubs and 37 per cent of all clubs having a majority of INEDs amongst their NEDs. These levels of compliance with best practice are below those observed for LSE listed companies across all business sectors.

Table 3.10 also provides information on the proportion of clubs that have a separation of the roles and powers of the Chair and Chief Executive. 71 per cent of listed clubs and 77 per cent of all clubs have a separate Chair and Chief Executive. However, only 38 per cent

Table 3.10 Board Composition and Separation of Powers

	Percentage of Clubs/Companies Complying					
	Listed Clubs			All Clubs		
	2002/3	2003/4	2004/5	2002/3	2003/4	2004/5
Do non-executive directors comprise at least one-third of the board?	94*	93	92	Not Available	69	76
Is a majority of non-execs identified as independent?	44	44	50	Not Available	33	37
Has the company stated that there is at least one non-executive director?*	81	100	92	55	75	82
Are the roles of Chairman and CEO separate?	69	67+	71	82	84	77
Is the division of responsibilities between the Chair and CEO set out in writing?	43	50	33	38	43	30

*****This figure includes 1 club that did not identify directors as executive, non-executive and independent non-executive in their Annual Reports but indicated in response to our survey that a majority of the Board are independent non-executive directors.
** Two listed clubs did not disclose this in their Annual Reports. +Excludes one club listed on AIM that does not mention this in its Annual Report.

of listed clubs and 30 per cent of all clubs responding to our survey indicated that the division of responsibilities between the Chair and Chief Executive was set out in writing.

Although board structure is important, the strength of the board depends crucially on the skills, quality and experience of its directors. The 1998 Combined Code sates that,

> “There should be a formal and transparent procedure for the appointment of new directors to the board… Unless the board is small, a nominations committee should be established to make recommendations to the board on all new board appointments.” (The Combined Code 1998, Code Provisions A.5).

In addition, the 1998 Code states that the nominations committee should be comprised of a majority of independent NEDs and be chaired either by a NED or the board chairman. The 2003 Combined Code has strengthened these provisions by removing the waiver for small boards not to have a committee and by setting out more detail on the work of the nominations committee. In particular, it makes it clear that, “Appointments to the board should be made on merit and against objective criteria”, moreover, the committee “should evaluate the balance of skills, knowledge and experience on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.” (Combined Code 2003, Provision A.4).

Table 3.11 provides data on the proportion of listed clubs, all clubs and All-Share Companies on the LSE that have a nominations committee with a majority of non-executive directors. It can be seen that while there has been an improvement, the performance of football clubs lags significantly behind that of the All-Share Companies. Only 60 per cent of all Premier and Football league clubs with large boards (more than 6 directors) have a nominations committee with a majority of non-executive directors. In other words 40 per cent of listed clubs and 87 per cent of all clubs (with large boards) do not meet best practice in this regard. In contrast 85 per cent of the LSE All-Share Companies comply with this provision of the 1998 Combined Code.

We also asked clubs if they had a transparent procedure for appointing new directors: only 57 per cent of listed clubs and 29 per cent of all clubs responding to our survey stated that this was the case.

Having a board with the necessary skills is essential if clubs are to be well equipped to operate in the complex business environment of the football industry. The recruitment and selection of directors with appropriate skills is central to this task. Nominations to the board is clearly an area where many clubs would benefit from following best practice.

Induction and training for directors

The Higgs review highlighted the fact that it is not enough to make sure that there is an open and transparent procedure for appointing executive and non-executive directors to the board, it is also necessary to ensure that they receive appropriate induction and training. In particular, new directors need to be made aware of their obligations and of the time commitment involved. Table 3.12 shows that this is another area where there is considerable room for improvement. Only 14 per cent of listed clubs and 4 per cent of all clubs responding to our survey stated that they had an induction procedure or training for new directors.

Table 3.11 Nomination Committee and Appointments to the Board

	Percentage of Clubs/Companies Complying								
	Listed Clubs			All Clubs			All-Share Companies on the LSE		
	2002/3	2003/4	2004/5	2002/3	2003/4	2004/5	2002/3	2003/4	2004/5
Is there a nominations committee comprising a majority of non-executive directors?	33	36	60	NA*	4	13	77	79	85
Is there a transparent procedure for appointing new directors?[11]	29	60	57	31	32	29	87	97	98

[11] Figures for listed clubs responding to our survey.

Table 3.12 Induction, Training and Appraisal of Directors

	Percentage of Clubs/Companies Complying								
	Listed Clubs			All Clubs			All-Share Companies on the LSE		
	2002/3	2003/4	2004/5	2002/3	2003/4	2004/5	2002/3	2003/4	2004/5
Is there an induction procedure or training for new board members?	43	33	14	12	4	4	NA*	NA*	NA*
Is there an appraisal procedure for directors?	0	20	14	10	9	15	8	4	20
Is training provided and required for directors?	0	40	29	2	13	4	46	NA*	NA*
Is there a supporter elected director?	6	17	14	16	25	25	NA*	NA*	NA*

* NA denotes not available.

A similar picture emerges for appraisal procedures and training for existing directors - only 14 per cent of listed clubs and 15 per cent of all clubs stated that they had director appraisal procedures, this is slightly below the LSE All Share Companies' figure of 20 per cent. Clearly this is an area of weakness in the company sector as a whole and not just the football industry. 29 per cent of listed clubs stated that they provided and required training for directors, compared to just 4 per cent of all Premier and Football League clubs. Current figures for LSE companies are not available but in 2002, 46 per cent of LSE companies provided training, Higgs (2003).

In order to evaluate and enhance corporate performance the board should undertake an assessment of its own performance, the performance of its committees and that of individual directors. Table 3.13 shows that in 2005, 38 per cent of clubs stated that they carried out an evaluation of the board's own performance; 26 per cent carried out an evaluation of its committees; and 29 per cent an evaluation of individual directors' performance. These figures, though low, are an improvement on last years'.

Directors' pay and the Remuneration Committee

In recent years there has been much controversy over directors' pay. In 2003 shareholders voted against GlaxoSmithKline's directors' remuneration report and concern about excessive pay deals for directors continues. The Combined Code recognises that pay has to be sufficient to attract and retain qualified directors but clearly states that "companies should avoid paying more than is necessary for this purpose"

Table 3.13 Board, Committee and Director Evaluation

	Percentage of Respondents	
Does the Board undertake an evaluation of the following?	**2004**	**2005**
Board's own performance	28	38
Performance of its committees	13	26
Performance of individual directors	17	29

(Combined Code 1998, Provision B.1). Moreover, the code requires that at least part of directors' pay should be linked to corporate and individual performance. To help ensure that these principles are upheld the code requires companies to have a remuneration committee comprised wholly of independent non-executive directors. Table 3.14 shows that only 66 per cent of listed clubs and 12 per cent of all Premier and Football League clubs responding to our survey complied with this aspect of the code. This compares unfavourably with the performance of the All-Share Companies on the LSE where the rate of compliance is 87 per cent. The reduction in the rate of compliance of listed clubs may reflect the fact that some of the better performers in this area have de-listed.

Table 3.14 The Remuneration Committee

	Percentage of Clubs/Companies Complying								
	Listed Clubs			All Clubs			All-Share Companies on the LSE		
	2002/3	2003/4	2004/5	2002/3	2003/4	2004/5	2002/3	2003/4	2004/5
Is the renumeration committee wholly comprised of independent non-executive directors?	44	81	66	NA*	10	12	86	88	87
Is a remuneration report put to the AGM for approval by shareholders?[12]	43	80	43	NA*	13	8	30	99	NA*

*NA denotes not available.

Table 3.15 The Audit Committee

	Percentage of Clubs/Companies Complying								
	Listed Clubs			All Clubs			All-Share Companies on the LSE		
	2002/3	2003/4	2004/5	2002/3	2003/4	2004/5	2002/3	2003/4	2004/5
Is there an Audit Committee with at least 3 non-execs and a majority of independent non-execs?	31	37	41	NA*	13	10	87	96	88
Did the board receive a report on internal audit controls?	38	67	NA*	NA*	10	NA*	87	96	97

*NA denotes not available.

Only 43 per cent of the listed clubs responding to our survey stated that they put a report on directors' remuneration to a shareholder vote. This is considerably more than the percentage for all clubs (8 per cent) but still significantly below the All-Share Companies' compliance rate of close to 100 per cent.

Risk, internal control and the Audit Committee

Risk has increased in the football industry over the past decade making it all the more essential for clubs to have sound procedures for risk assessment and internal control. The 1998 Combined Code recommends that companies have an Audit Committee with at least 3 non-executives and a majority of independent non-executives. It can be seen from Table 3.15 that 41 per cent of listed clubs comply with this aspect of the code, up from 37 per cent last year. 20 per cent of all clubs have an Audit Committee but the requirements regarding the number and proportion of NEDs and INEDs is met at only 10 per cent of clubs; this is down slightly on last year's figure of 13 per cent.

[12] See text for important change in the law affecting the comparison of these results.

3.16 Risk Assessment and Management: Club Survey Results

	Percentage of Clubs/Companies Complying					
	Listed Clubs			All Clubs		
	2003	2004	2005	2003	2004	2005
An evaluation of the nature and extent of the risks facing the club	71	83	86	47	66	75
The likelihood of the risks concerned, materialising	86	75	86	41	40	50
Specific risk studies and assessment of impact	86	75	67	26	32	31
Controls and procedures to limit exposure to loss of assets and fraud	100	75	67	45	43	46
Board approval of a 1-year business plan	NA*	83	100	NA*	85	98
Board approval of a 3-year business plan	86	67	83	48	62	54

* NA denotes not available

Table 3.16 provides analysis of the type of risk assessment and management activities that clubs carry out. It can be seen that for all clubs (the last three columns) there has been an improvement over the past 2 years. In particular, 98 per cent of clubs now approve a 1-year business plan. However, there are still areas of concern. In 2005 only 54 per cent of clubs stated that they put a 3-year plan to the board for approval. This could reflect a switch from 3-year to 1-year business planning but in our view clubs should be doing both. 75 per cent of clubs carry out an evaluation of the risks facing their club, but only 31 per cent undertake specific risk studies and assessment. Moreover, only 46 per cent of clubs stated that they had procedures in place to limit exposure to loss of assets and fraud.

Overall, the results on risk management and business planning suggest that while there have been improvements in many areas of club activity, there is still a sizeable proportion of clubs that do not have the risk evaluation and business planning procedures in place to effectively manage the risks facing their clubs and to plan accordingly.

Attitudes to regulatory controls

In recent years there has been an increase in regulatory controls designed to improve the corporate governance of clubs and help them manage their finances. At the same time there have been calls for tighter regulation in some areas, such as players' agents. We asked clubs whether they favoured a number of regulations designed to improve governance, reduce risk and increase transparency. The results are presented in Table 3.17. Overall there is a high level of support for all of the mechanisms. In particular, there is almost universal support for: agent fee transparency (94 per cent); tighter regulation of agents (92 per cent); and the 'Fit and Proper Persons' Test (94 per cent). 84 per cent of clubs are in favour of sporting sanctions for clubs entering Administration and around two-thirds of clubs favour some form of wage control.

The very high level of support for tighter regulation of agents and agent fee transparency suggests that it is time for the authorities to act in this area.

Table 3.17 Attitudes to Regulation: Premier and Football League Clubs

Are you in favour of the following mechanisms?	Percentage of Respondents 2005
The 'Fit and Proper Persons' Test	94
Salary Cost Management Protocol	68
Divisional Player Wages	64
Agent Fee Transparency	94
Tighter Regulation of Agents	92
The Football Creditor Ruling	73
Sporting Sanctions for Clubs in Administration	84

4. Enterprise governance

Enterprise governance is the combination of *conformance and performance*, where conformance refers to compliance with corporate governance criteria and performance refers to strategic aspects of business management (IFA 2004). In this section we look at two aspects of enterprise governance: financial management and resource utilisation.

Financial management

We asked clubs how concerned they were about their levels of debt. The results are presented in Table 3.18. It can be seen that there has been a significant increase in the percentage of clubs stating that they are 'very concerned' – up from 15 per cent last year to almost a quarter of clubs this year. This may reflect uncertainty over the value of the next TV deal and signs that attendances may be on the slide.

Table 3.18 Levels of Debt: Premier and Football League Clubs *

How concerned are you about the levels of debt in your company?	Precentage of Respondents		
	2003	2004	2005
Not concerned	6	21	16
Moderately concerned	79	64	61
Very Concerned	15	15	22

*Figures may not sum exactly due to rounding.

Cash flow management is an important part of financial management. Table 3.19 presents analysis of how frequently clubs update their cash flow projections. It can be seen that there has been an increase in the percentage of clubs using weekly projections - up to 33 per cent this year compared to 27 per cent in 2004. At the same time there has been a decline in the proportion of clubs updating their cash flow figures on a monthly basis.

Table 3.19 Cash Flow Projections: Premier and Football League Clubs

How often are your cash flow projections updated?	Percentage of Respondents		
	2003	2004	2005
Weekly	24	27	33
Monthly	62	65	55
Quarterly	4	2	10
6-Monthly	4	4	2
Other	4	2	0

*Figures may not sum exactly due to rounding.

Table 3.20 shows that there has been a change in the cash flow management techniques used by clubs. Despite the increased concern over debt, there has been a fall in the proportion of clubs deferring capital expenditure – down from 49 per cent in 2004 to 25 per cent in 2005. There has been little change in clubs use of new debt and a fall in the use of trade credit – down from 45 per cent in 2004 to 22 per cent in 2005.

Table 3.20 Cash Flow Management: Premier and Football League Clubs

Methods of active cash flow management used in the last 3 months:	Percentage of Respondents		
	2003	2004	2005
Deferring capital expenditure	36	49	25
Extending credit periods from suppliers	40	45	22
Raising new debt	21	19	20
Raising new equity	30	36	27
Disposing of assets	17	23	22

Resource utilisation

Two of the most valuable assets of a club are its players and the stadium. Following the Bosman ruling, it is essential that clubs have in place a process for tracking players' contracts to ensure that players do not leave on a free transfer. Since 2003 there has been a marked improvement in the tracking of players' contracts - in 2005 virtually all clubs had a tracking mechanism in place (see Table 3.21).

Table 3.21 Monitoring Players' Contracts: Premier and Football League Clubs*

Do you have a method in place for 'tracking' players contracts: (e.g. to prevent players leaving on a Bosman)?	Percentage of Respondents		
	2003	2004	2005
Yes	78	98	98
No	16	2	0
Don't Know	6	0	1

* Figures may not sum exactly due to rounding.

A club's income on match day and non-match days will depend on the range of services offered at the stadium. Table 3.22 shows the extent of commercial use of clubs' stadia. The data show that there is scope for the majority of clubs to increase their revenue by offering a broader range of services.

Table 3.22 Stadium Utilisation: Premier and Football League Clubs

	Percentage of Respondents
Does your stadium have?	**2005**
A club shop	96
Hotel	6
Rented office space	38
Nightclub	6
Restaurant	48
Bar open to public outside of match days	42
A health centre	10
Rented retail outlets	8
Directors' match boxes	84

5. Conclusion

Events in 2005 have highlighted the importance of corporate governance in the football sector: these include the financial collapse of Borussia Dortmund, revelations about fraud at Chesterfield in 2000-2001 and the takeover of Manchester United. The trend for clubs to de-list from the stock market has continued bringing the question of appropriate ownership models for football clubs to the fore.

Over the past decade there has been a significant increase in risk in the sector associated with greater inequality in revenue. There are also signs that the Premiership bubble may be bursting with falling competitive balance and signs of declining attendances. The majority of clubs are in favour of more redistribution of TV revenue both within and across leagues. Clubs would also favour tighter regulation of agents and greater transparency of agents' fees.

However, for redistribution of income and other regulatory reforms to work they must be introduced as part of a package of measures designed to improve corporate governance; otherwise there is a danger that greater redistribution will be used to subsidise poor management.

The need for a code of corporate governance for football is greater than ever. The government's draft Company Law Reform Bill has proposed removing the requirements for private companies to hold AGMs just at a time when clubs are beginning to use their AGMs to more effect. It is important that the FA's proposed code of corporate governance steps in to fill this regulatory gap.

A key area of weakness in the corporate governance of the football sector is the appointment of directors to the board together with the lack of adequate induction procedures and training. If clubs are to be successful in the complex world of the football industry they need to ensure that they have the right skills and experience on the board and that these are constantly updated via training. Clubs are also weak in the use of non-executive directors, especially independent non-executive directors. There is high skill base amongst the members and officials of many supporters' trusts and clubs would do well to tap into this resource to bring new expertise and diversity to their boards.

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Chapter 4

The Football Conference

The 2004 *State of the Game* Report was the first year that the survey extended to include the 22 clubs from the Conference National Division. Five areas in which the Conference had developed over the course of the previous three years were identified. These were the restructuring of the semi-professional game and subsequent expansion of the remit of the governing body; the increase in the number of Conference clubs turning professional; the rise in attendance figures; and the introduction of two promotion places to the Football League. Over the course of the last 12 months, the Football Conference has continued to thrive as a competition with rising attendances and a further increase in the number of clubs making the transition to full-time, professional playing squads.

Following the restructuring of the semi-professional game in 2004/2005, the Football Conference expanded from a 22-club league to three leagues containing 66 member clubs: the Conference National, Conference North and Conference South. The survey this year was therefore extended to include all member clubs that fall within this expanded remit of the Football Conference. We received completed survey returns from 13 of the 22 Conference National clubs – a response rate of 59 per cent – and from 28 of the 44 Conference North and South clubs – a response rate of 64 per cent. For the combined Conference leagues, the returns were therefore 41 out of 66 – a response rate of 62 per cent. These are extremely high return rates for a lengthy survey such as this.

This chapter begins by considering the implications of the Burns Review for the Football Conference. The survey results for the Conference National are then presented, and contrasted with the results from the 2004 survey and the 2005 FAPL and FL survey. We then consider the results from the inaugural survey of Conference North and South clubs. Finally, the regulatory developments in the Football Conference and the attitude of member clubs to mechanisms designed to promote good governance are examined.

1. The Burns Review

There are two main proposals from Burns that would have significant implications for the Football Conference:

i) The Football Conference should have 3 seats on a restructured FA Council
ii) The development of the ‘Professional Football Alliance’ and ‘Community Football Alliance’

Firstly, Lord Burns recommends the Football Conference should have more formal representation at the FA through 3 places on a restructured FA Council. Despite the developments made by the Football Conference in recent years, at present there is no position for the governing body on the 92-member FA Council, the FA Main Board, the Professional Game Board or the National Game Board. The recommendation for the Football Conference to have 3 seats on a restructured Council is, in itself, a positive development. However, there are two points of concern. The first is that the Burns Review suggests *increasing* the size of the Council from the current 92 to over 100. Moreover, the Burns Review recommends extending the remit of the FA Main Board, diluting the power of the Council. So, the Conference would be represented on a Council that would be even more unwieldy than at present, and with even less power.

Secondly, the Burns Review proposed creating two semi-autonomous subsidiaries within the FA: the ‘Professional Football Alliance’ would be responsible for the promotion, integrity and standards of governance of the professional game in England, with the ‘Community Football Alliance’ accountable for the governance and co-ordination of non-professional football, including playing, coaching, refereeing, youth and women’s football. However, the Burns review states that it is difficult to draw a line between the scope of the ‘Professional Football Alliance’ and the ‘Community Football Alliance’, and it avoids the practicalities of doing this by reporting that the positioning of the Football Conference into either of the subsidiary units is a matter for the FA and the respective bodies to address.

There are many arguments to support the inclusion of the Football Conference in the ‘Professional Football Alliance’. These include the increase in professionalism, rising attendances, turnovers that mirror and in some cases exceed clubs in the Football League, and governance standards that are on a par with clubs from the Premier and Football League. Moreover, in the submission made by the Football Conference to the Burns Review, it was made known that the governing body has never considered itself as part of the National Game. Instead it has tried to further integrate with the Football League, as the increase to two promotion places in 2002/03 and the calls for a third place would suggest. At the same time, members of the National Game Board at the FA believe that the Football Conference should be considered as part of the professional game. Therefore, whilst it would seem logical for the Football Conference to be included as part of the professional game, the danger is that if the Premier League, Football League and FA refuse to recognise the Football Conference as such, it could result in the governing body falling between the two stools of the ‘Professional Football Alliance’ and the ‘Community Football Alliance’.

Thus, the implications of the Burns Review regarding the Football Conference are not particularly encouraging. While Burns argues that the Conference should have more representation in the structures of the FA, three places on an even more unwieldy council, from which strategic decision-making responsibility had been stripped, is not particularly significant.

2. Governance standards in the Conference National

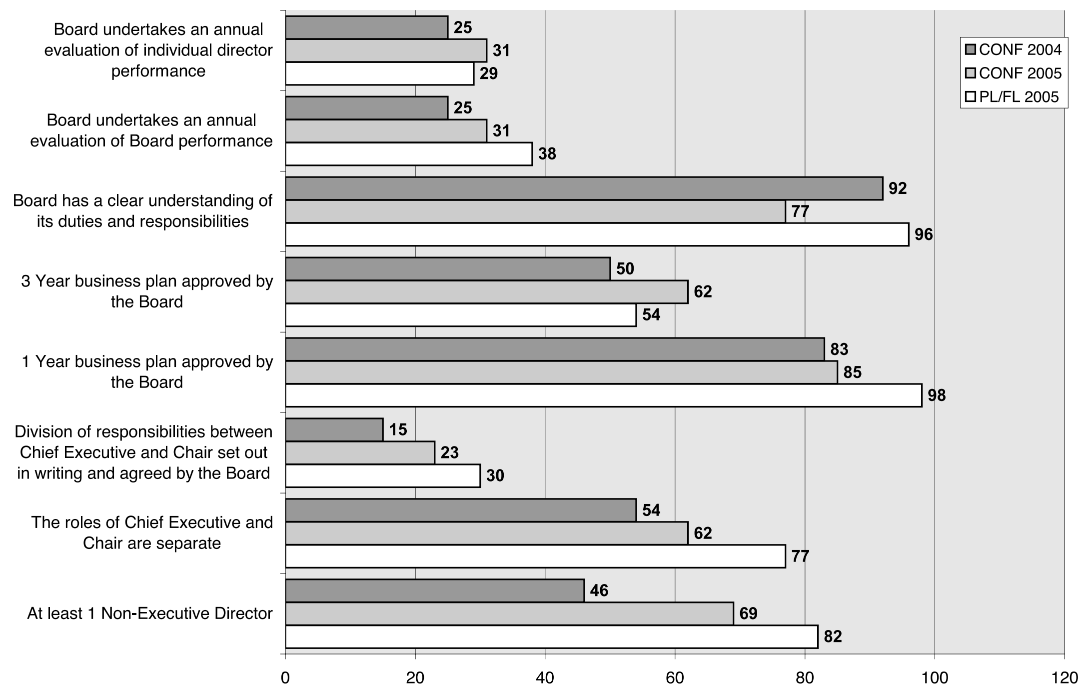
A point made in last year’s *State of the Game* is that clubs in the Conference are only small businesses, so various aspects of the Combined Code of Corporate Governance (2003) are not particularly relevant. However, operating a club in the Football Conference can still involve serious risks, especially if turning to full-time professional football, and in dealing with such risks it is important for clubs to follow good governance procedures.

2.1 Board composition and responsibilities

The Combined Code (2003) stresses that boards must avoid being too large and unwieldy, and hence ineffective in decision-making. The Higgs Review (2003) revealed that for the smaller listed companies outside the FTSE 350, the average size of the board was six. The *State of the Game* survey found that on average, clubs in the Football Conference have seven board members – consistent with smaller listed companies and in line with the recommendations made by Higgs – meeting twelve times per year.

Figure 4.1 presents the survey results for board composition and responsibilities for clubs in the Conference National in 2005 and in 2004. It also compares the results with clubs in the Premier League and Football League. To avoid one individual having too much power in a company, the Combined Code (2003) recommends a division of responsibilities between the chief executive and chairman and that there should be a balance of executive and non-executive directors. Overall, the results indicate that there have been some positive developments over the course of the last year. For instance, there is now at least one non-executive director in place at 69 per cent of respondents, up from 46 per cent last year. There

Figure 4.1 Board Composition and Responsibilities



has also been a rise in the number of clubs that separate the roles of chief executive and chair, as recommended by the Combined Code (2003) – 62 per cent of clubs, up from 54 per cent last year. The percentage of clubs where the board sets out the division of responsibilities between the chair and chief executive has risen from 15 per cent to 23 per cent. These results compare favourably to the survey results from the clubs in the Premier and Football Leagues. Only in the case of non-executive directors do clubs in the Premier League and Football League significantly outperform the clubs in the Conference National.

The percentage of clubs that undertake an annual evaluation of board performance and an evaluation of the performance of individual directors has risen to 31 per cent this year from 25 per cent last year in both instances. A positive development is that 62 per cent of club respondents indicated that they have a 3-year business plan in place approved by the board – up from 50 per cent last year. 85 per cent of clubs stated that they have a 1-year business plan, almost identical to last year's 83 per cent. These results are similar to the responses from clubs in the Premier League and Football League, which show that 96 per cent have a 1-year business plan approved by the board, and 50 per cent have a 3-year plan.

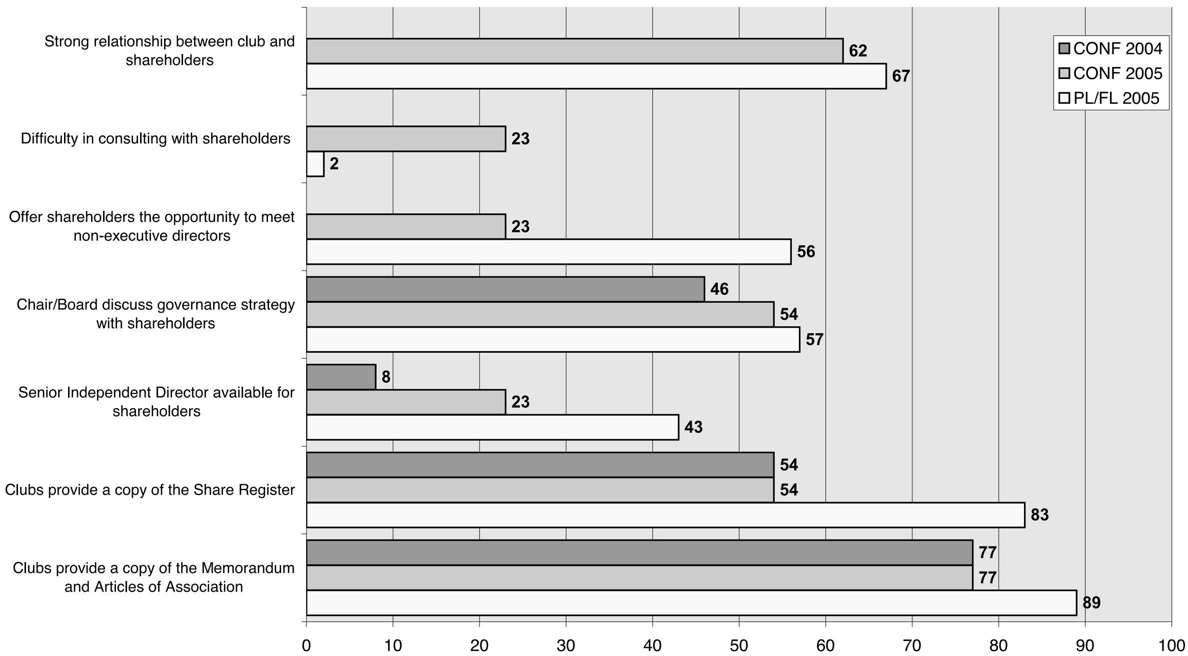
Although these results concerning the composition and the responsibilities of the board show positive developments on last year's results, Figure 4.l also reveals a significant decrease in the number of respondents believing that the board has a clear understanding of its duties and responsibilities. Last year, 92 per cent of respondents felt that this was the case at their clubs, whereas this year, only 77 per cent felt the same.

2.2 Information disclosure and consultation with shareholders

It is important for companies to disclose information where relevant. Figure 4.2 shows that 77 per cent of clubs in the Conference National would provide a copy of the Memorandum and Articles of Association and 54 per cent would provide a copy of the share register, exactly the same result as last year. The results for the clubs in the Premier League and Football League are better, with 89 per cent stating that they would provide a copy of the Memorandum and Articles of Association while 83 per cent would provide a copy of the share register. However, the Company Law Act 1985 states that both documents must be supplied to shareholders on request.

Figure 4.2 indicates some improvements in corporate

Figure 4.2 Information disclosure and consultation with shareholders



governance practice from last year, with:

- 23 per cent of clubs having a Senior Independent Director available for shareholders, in contrast to just 8 per cent the previous year (as against 43 per cent for the Premier and Football Leagues)
- 54 per cent claiming to discuss governance strategy with shareholders, up from 46 per cent in 2004
- 23 per cent admitting to difficulties in consulting with shareholders, in contrast to just 2 per cent of clubs in the Premier and Football Leagues
- 62 per cent reporting a strong relationship with their shareholders, similar to the 70 per cent of Premier and Football League respondents

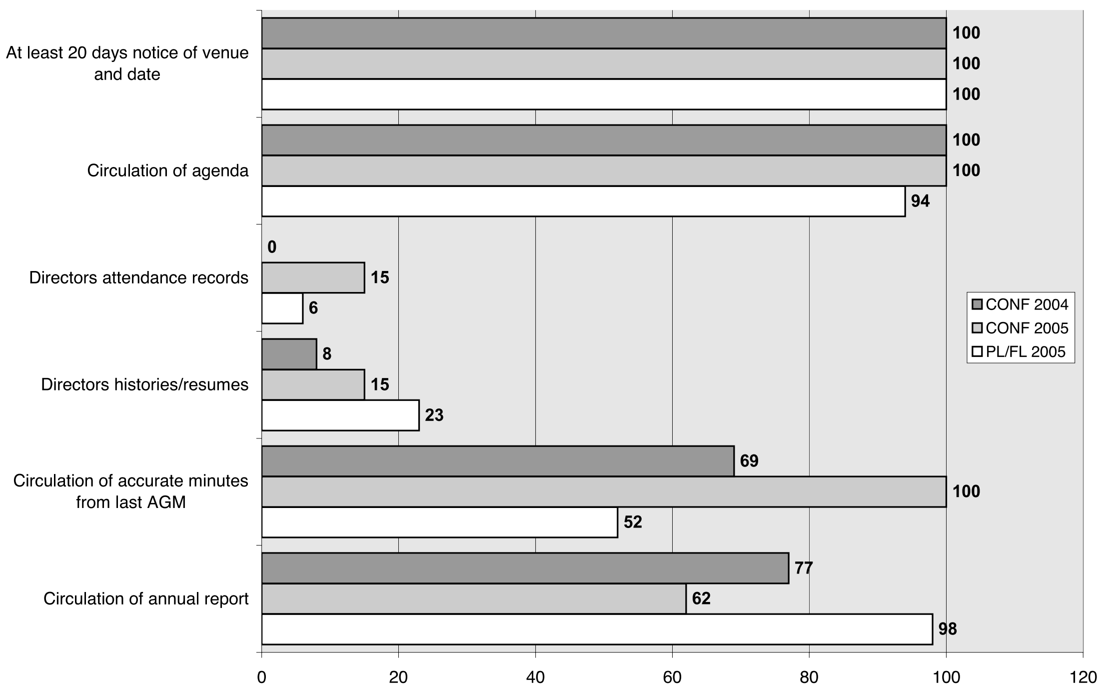
2.3 Board use of the AGM to disclose information to shareholders

All club respondents from the Conference National again reported that they circulate the agenda and provide adequate notice of the venue and date for the AGM to enable shareholder participation. This is marginally better than the club respondents from the Premier and Football League. However, only 62 per cent of clubs had circulated the Annual Report prior to the AGM, in contrast to 77 per cent last year and 98 per cent of clubs respondents from the Premier League and Football League (Figure 4.3). All respondents reported having circulated accurate minutes from the last AGM – up from 69 per cent last year, and compared to only 52 per cent of Premier League and Football League clubs. The proportion of clubs that disclose director histories/resumes is up to 15 per cent, from 8 per cent last year, with 15 per cent disclosing director attendance records at board meetings.

2.4 Consultation between club and fans

Football club supporters are key stakeholders in the football industry and the nature of their relationship with the football club is more than a conventional business-customer relationship. The ability of a football club to maintain a dialogue with supporters is thus crucial. One way is through supporter access to the board. Our survey results show that 23 per cent of clubs in the Conference National have a supporter elected director on the board –the same percentage as last year. Similarly, in the Premier and Football League, 25 per cent of club respondents have a supporter on the board. However, the number of clubs that claimed it was not difficult to maintain a dialogue with the club supporters has fallen from 85 per cent last year to 69 per cent this year, similar to the 63 per cent response rate in the Premier and Football League. Despite this, in the Conference National only 54 per cent of clubs felt that a Customer Charter would be of

Figure 4.3 Use of the AGM to disclose information to shareholders



benefit, down from 67 per cent last year. 77 per cent of club respondents also stated that it is not difficult to publicise their position on major policy issues, the same proportion as last year. But only 38 per cent of respondents found it *not* difficult to balance the interests of business and fans.

2.5 Risk assessment and management

Last year, there were 12 clubs in the Conference National that maintained full-time playing squads. This year, the number has risen to 18 out of the 22 clubs. There are risks associated with full-time football in the form of increased costs, although the imposition of the 'Approved Playing Budget' aims to keep club finances in check (see Section 4, below). Moreover, all clubs in the Conference National track player contracts to avoid the possibility of losing a player for nothing at the end of their contract; another means by which to offset risks inherent in the football industry. However, the survey results also revealed that just 39 per cent of clubs have in place a formal process for identifying and evaluating risks. This has fallen from 50 per cent last year and is considerably lower than for the Premier and Football League where 75 per cent indicated they had a risk procedure in place. Figure 4.4 indicates only 23 per cent of clubs have procedures to limit exposure to the loss of assets and fraud, compared to 33 per cent last year and 46 per cent in the Premier and Football League. Moreover, while 31 per cent of clubs in the Premier and Football Leagues conduct specific risk studies, just 8 per cent of clubs in the Conference National indicated having such a procedure in place.

Despite the decrease in the number of clubs having formal risk assessment procedures in place, the survey results reveal that clubs in the Conference National appear to be able to keep their finances in check. For instance, only 31 per cent are concerned with the levels of debt in the company, almost identical to the 32 per cent response rate last year and slightly better than the 35 per cent of club respondents from the Premier and Football League. Moreover, only 15 per cent claim that they have difficulties in maintaining the solvency of the company, significantly more encouraging than the 41 per cent of clubs in the Premier and Football League, while 69 per cent update their cash flow projections at least every month. Figure 4.5 shows that on average, very few clubs have had to use methods of cash flow management in the last three months, suggesting that club finances in the Conference National are relatively stable. For instance, just 15 per cent of respondents have felt the need to raise new debt over the course of the last three months: 31 per cent of respondents have deferred capital expenditure, 15 per cent have raised new

Figure 4.4 Risk Evaluation Process

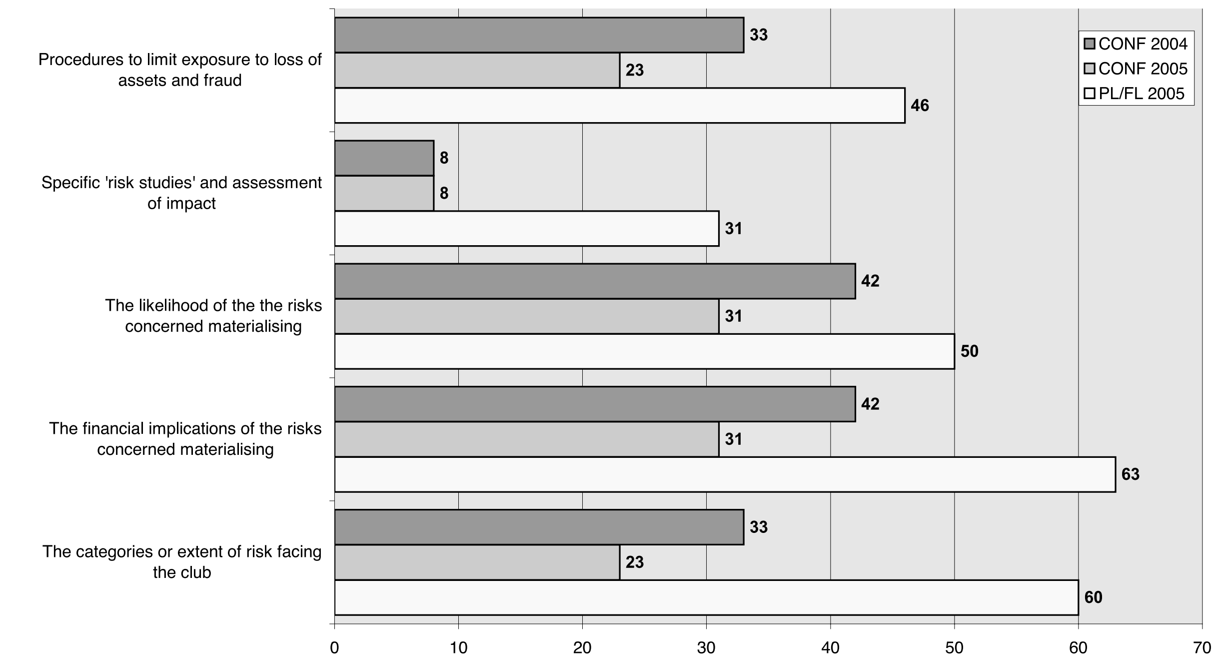
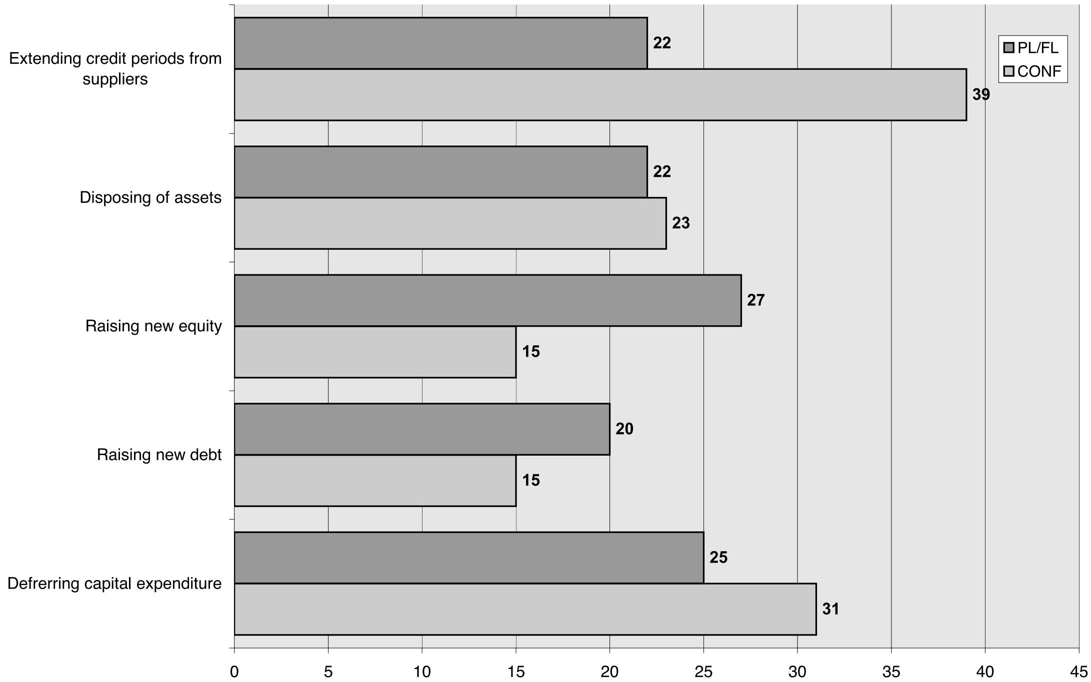


Figure 4.5   Cash Flow methods used in the last 3 months



equity, 23 per cent have disposed of assets and 39 per cent have extended their credit period from suppliers. Figure 4.5 also shows that the survey results for Conference National clubs regarding the use of cash flow methods in the last 3 months are comparable to the clubs in the Premier and Football Leagues.

2.6   Resource utilisation

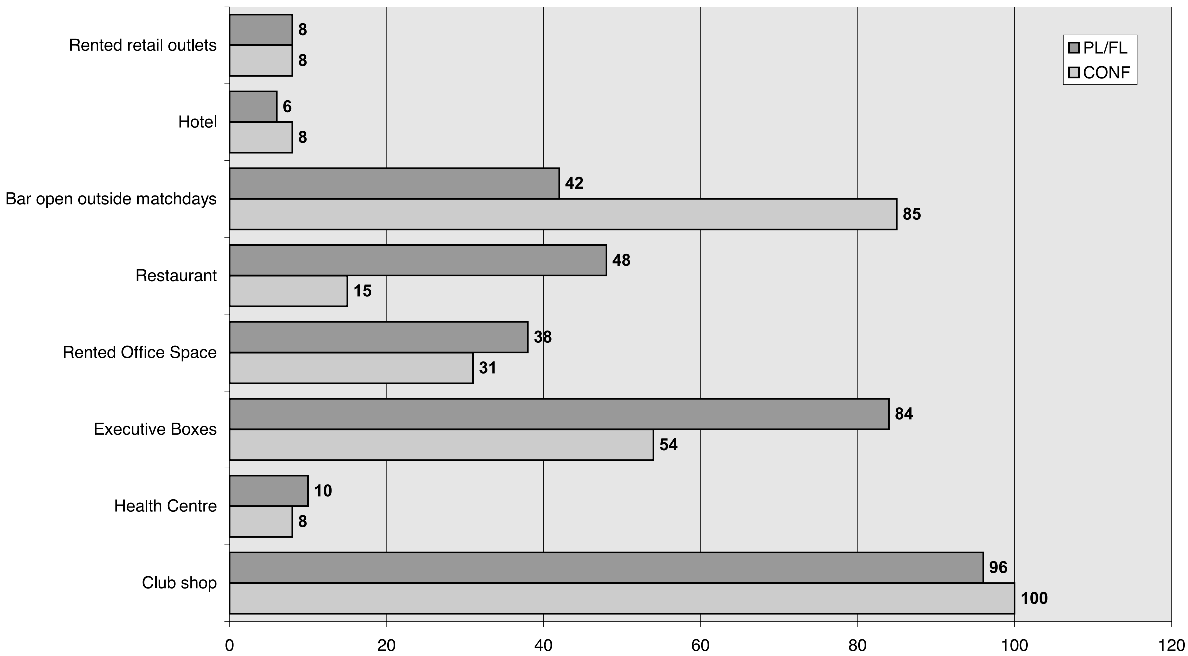
The survey results indicate the potential for clubs in the Conference National to use their stadiums to generate additional income streams. Figure 4.6 reveals that only 31 per cent of clubs rented office space at the ground, 15 per cent had a restaurant, while just 8 per cent had a health centre, a hotel or rented retail outlets at the ground. However, it is pleasing to see that all respondents in the Conference National have a club shop at the stadium while 85 per cent have a bar open to the public outside match-days. Except for the fact that 84 per cent of club respondents in the Premier League and Football League have executive boxes, compared to 54 per cent in the Conference National, the survey results are similar, suggesting that the use of the stadium as an asset to generate additional income is under-utilised throughout football.

3.   Governance Standards in the Conference North and South

This year has been the first in which the restructuring of the football pyramid has been applied. The effect has seen the Football Conference expand from one league at the top of the pyramid to include two regionalised feeder leagues – the Conference North and the Conference South. Building from the survey of the 22 Conference clubs last year, all 66 clubs that fall within the expanded remit of the Football Conference were surveyed this year. This section details the results from the inaugural survey of all 44 clubs in the Conference North and South.

While it has been noted that clubs in the Conference National division are small businesses compared to clubs in the Premier League and to the majority of clubs in Football League, the majority of clubs in the Conference North and South are even smaller. 38 of the 44 member clubs in the Conference North and South operate on a part-time, semi-professional basis, while 6 manage to maintain full-time professional squads. An average attendance in the Conference North and South of 510 for 2004/05 makes this a risky strategy. Indeed, the survey results indicated that just 7 per cent believe that full-time football is sustainable in

Figure 4.6 Stadium Resource Utilisation



the Conference North and South. Like the clubs in the Conference National, however, it is important that good business practice and governance procedures are in place for long-term sustainability.

3.1 Board composition and responsibilities

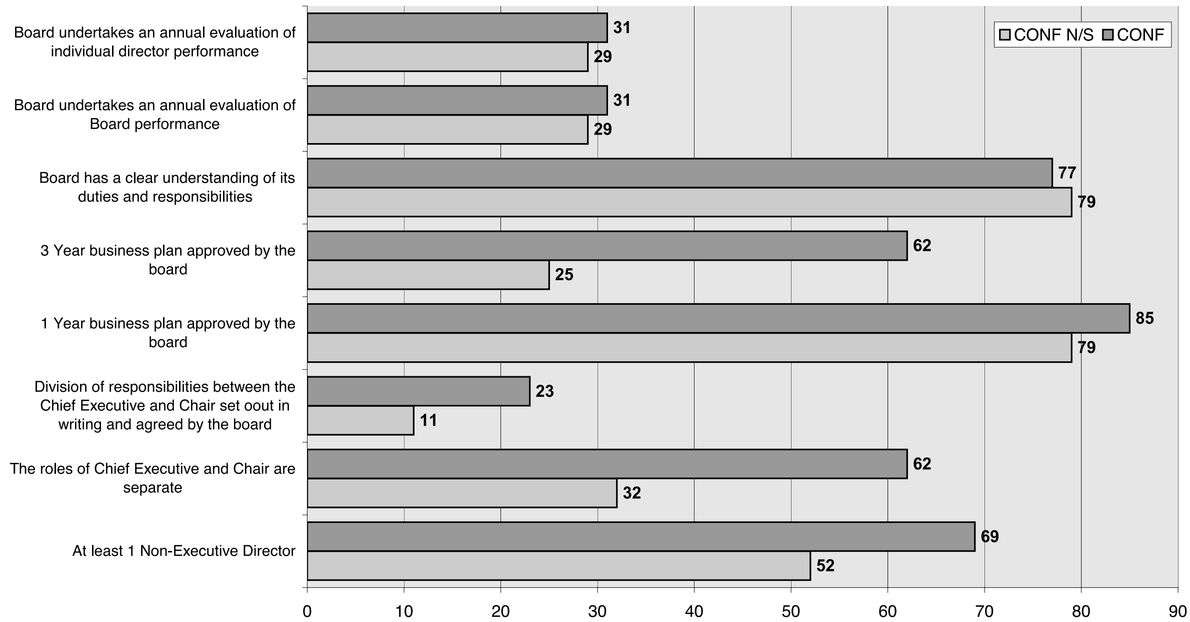
Figure 4.7 presents the survey results concerning the composition and responsibilities of the board at clubs in the Conference North and South. Only 32 per cent of clubs have a separate chairman and chief executive, while just 11 per cent set out in writing the division of responsibilities between the two roles. However, it is encouraging that for clubs of this size, 52 per cent have at least one non-executive director on the board. 29 per cent of respondents stated that their bBoard undertake an annual evaluation of their own performance and of the performance of individual directors. Despite this, 79 per cent of clubs surveyed believed that the board had a clear understanding of its duties and responsibilities, with only 4 per cent responding otherwise. It is also encouraging that 79 per cent of club respondents have a 1-year business plan approved by the board and that 25 per cent of respondents have a 3-year plan in place showing a longer-term approach to planning.

On average, a club in the Conference North or South has a board consisting of 8 members, meeting 12 times per year: 68 per cent believed they had an adequate number of board meetings, with only 7 per cent feeling they needed more. Only 14 per cent considered board agendas provide insufficient time to discuss significant issues. However, just over half (54 per cent) agree that the board has an effective mechanism for tracking actions in board meetings, indicating that this is an area that could be improved upon.

3.2 Consultation between club and fans

25 per cent of clubs in the Conference North and South have a supporter elected director on the board – as against 25 per cent in the Premier League and Football League, and 23 per cent in the Conference National. Only 14 per cent of clubs considered it difficult to maintain a dialogue with their fans, while only 18 per cent indicate that they find it difficult to publicise the clubs position on policy issues. However, while the clubs believe they can communicate well with their supporters, 46 per cent admit to having difficulties in balancing the needs of the business with those of supporters.

Figure 4.7 Board Composition and Responsibilities



3.3 Risk assessment and management

The overall picture in the Conference North and South is that the clubs are generally aware of the risks involved in the running of a football club and have put in place procedures to ensure they can operate in a stable manner. While 46 per cent reported that they find it difficult to maintain the solvency of the company, only 25 per cent are concerned with the level of debt in the football club, with just 4 per cent very concerned. There are a number of indications that clubs have put in place procedures to limit risk. 79 per cent of clubs have a 1-year business plan approved by the board, while 25 per cent have a 3-year business plan. Moreover, 86 per cent of clubs in the Conference North and South track player contracts, despite all of the clubs in the survey having only a part-time squad, while 75 per cent update their cash flow projection at least every month. In addition, 64 per cent of the clubs that responded revealed that they have a risk assessment process in place to identify and evaluate risks to the club.

Figure 4.8 shows that 61 per cent of respondents identify the financial implications of elements of risk, 47 per cent identify categories or extent of risks, 43 per cent identify the likelihood of risks materialising, 36 per cent put in place procedures to limit exposure to loss of assets and fraud, while 14 per cent conduct specific risk studies. In terms of cash flow management over the previous 3 months, 25 per cent had deferred capital expenditure, 29 per cent had raised new equity and 36 per cent had extended credit periods from suppliers. Only 14 per cent of clubs in the Conference North and South raised new debt and only 7 per cent disposed of assets.

3.4 Resource utilisation

For the clubs in the Conference North and South, the potential to generate additional income from the stadium is arguably less than for clubs in the Conference National and clubs in the Premier and Football Leagues. The main reason for this is due to the low attendance levels relative to professional clubs, which limits the amount of match day revenue that can be generated. Figure 4.9 indicates the extent to which the stadium is used to generate commercial revenue in the Conference North and South. Despite the size difference compared to Conference National clubs, the results are similar. As expected, the two main forms of stadium generated revenue arise from having a club shop (96 per cent of respondents) and a bar open to the public outside of match days (86 per cent of clubs). Although 25 per cent of clubs revealed that they had a restaurant, only a minority of clubs have other

Figure 4.8 Risk Assessment and Management

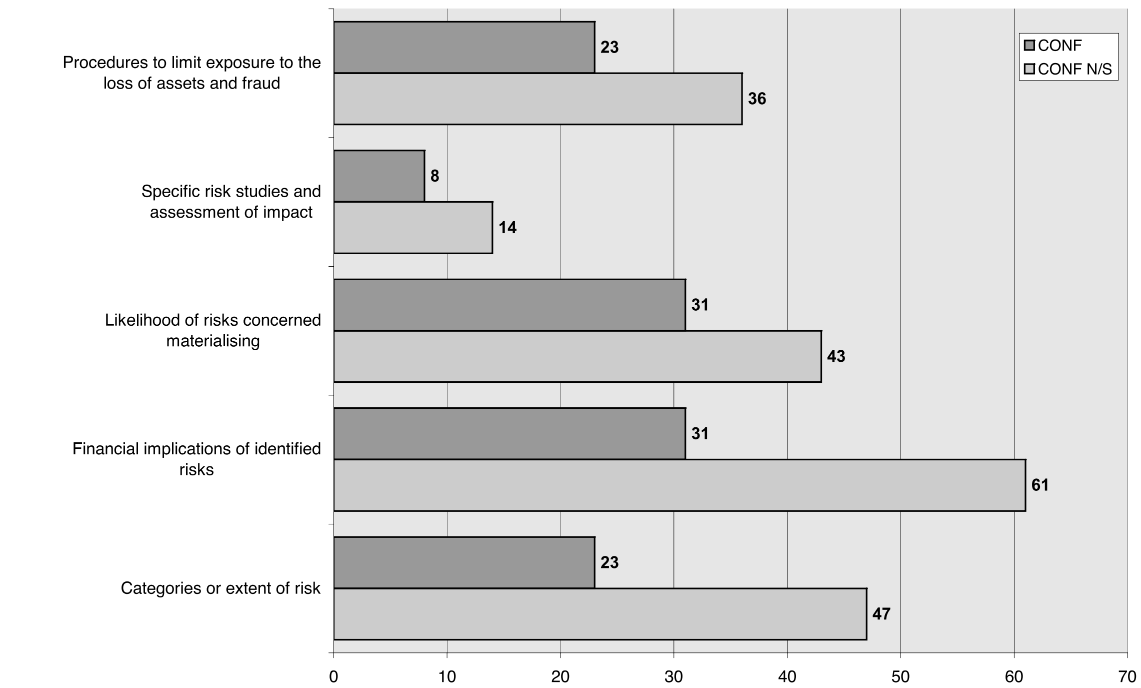
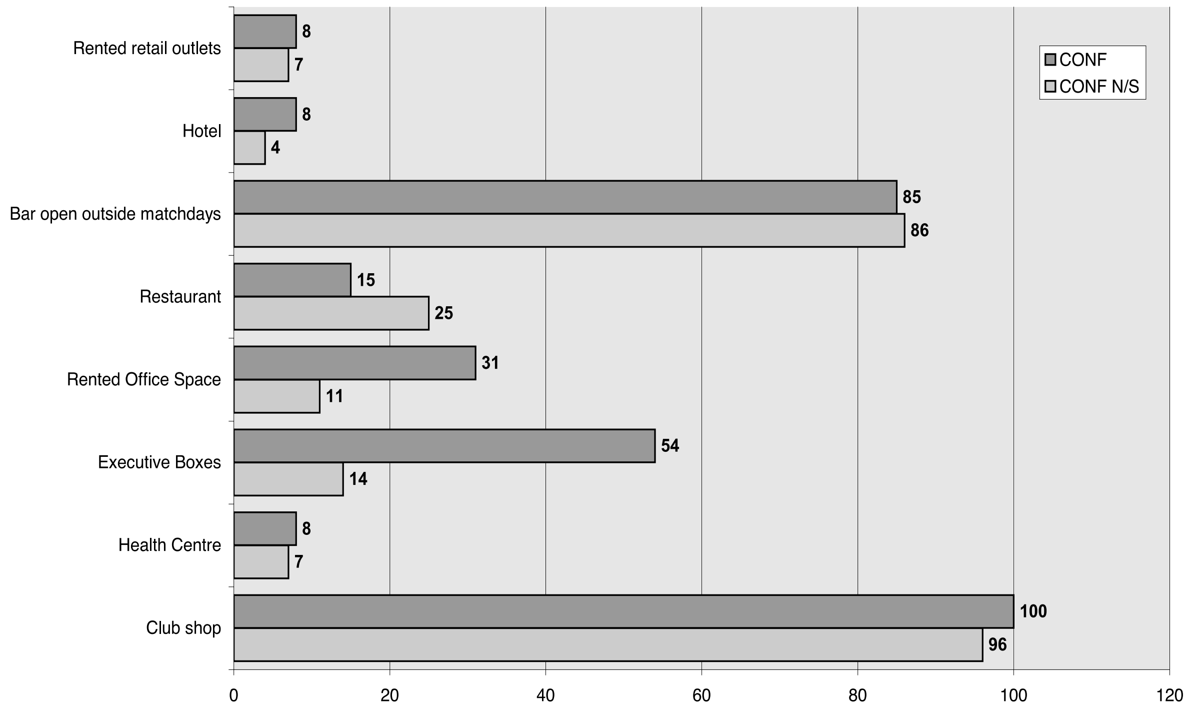


Figure 4.9 Stadium Resource Utilisation



commercial facilities such as executive boxes (14 per cent), rented office space (11 per cent), rented retail outlets (7 per cent) and a health centre (7 per cent).

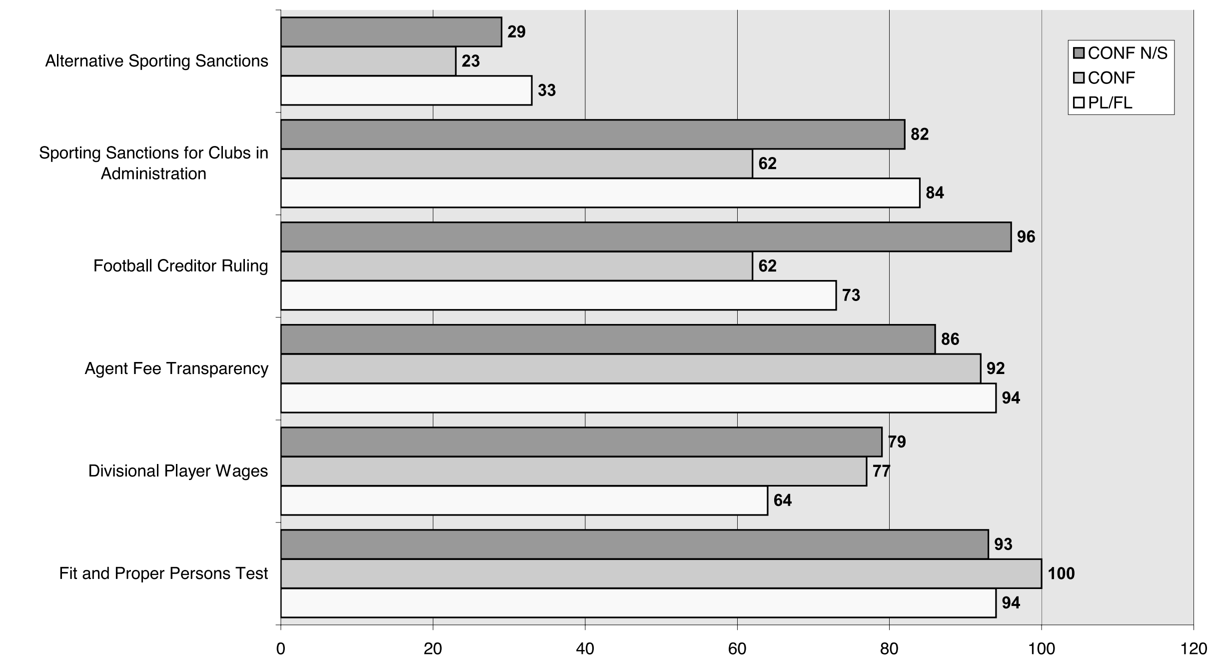
4. Regulatory issues in the Football Conference

Over the course of the last few years, the football authorities have taken steps to improve standards of corporate governance at member clubs. These have included introducing a fit and proper persons' test to club directors, improving the transparency of agent dealings through an Annual Report (Football League) and establishing sporting sanctions for clubs in Administration. The Football Conference is proactive when it comes to regulation, with the application of measures such as the 'Approved Playing budget'. The governing body has expelled or demoted member clubs for breach of Conference rules and failure to meet the necessary criteria for membership – including Barrow, Margate and Northwich Victoria in recent years.

Figure 4.10 indicates the attitude of member clubs in the Football Conference to a number of regulatory mechanisms designed to promote better corporate governance practice. The results indicate that the majority of clubs in the Conference National and the Conference North and South are in favour of improved governance mechanisms, suggesting that clubs are aware of the necessity and importance of regulatory control being imposed by the football authorities.

The most widely supported governance mechanism is the fit and proper persons' test. All the clubs surveyed in the Conference National were in favour of the test, with 93 per cent of Conference North and South clubs supporting such regulation. Also well supported by clubs in the Football Conference was for improved transparency in agent dealings. Although at present only the clubs in the Football League are required to disclose their financial dealings with player agents, 92 per cent of clubs in the Conference National and 86 per cent of respondents in the Conference North and South are in favour of this. 93 per cent of clubs in the Conference National and 100 per cent of Conference North and South clubs consider there should be tighter regulation of agents. Although it is only the Football League that has made it compulsory for member clubs to include in player contracts of more than one year levels of remuneration with respect to the league in which the club is competing in, 77 per cent of Conference National and 79 per cent of Conference North and South clubs are in favour of such regulation.

Figure 4.10 Governance Mechanisms



4.1 Sporting sanctions

The Football Conference tried to apply a 10-point sporting sanction for clubs in Administration a year before it came into existence in the Football League and Premier League. However, following conflict between the governing body and Exeter City over a challenge by the Inland Revenue concerning the football creditor ruling, the Football Conference agreed to adopt sporting sanctions in line with the Football League and Premier League.

Figure 4.11 indicates the attitude of Football Conference clubs to sporting sanctions, namely the deduction of points for clubs that enter into Administration, with 62 per cent of clubs in the Conference National and 82 per cent of Conference North and South clubs in favour. The level of support for alternative sporting sanctions such as a deduction of points for failing to pay a monthly tax bill was much less with only 23 per cent and 29 per cent of Conference National and Conference North and South clubs respectively in favour. For all three questions, 25 per cent of clubs in the Conference National felt that the threat of sporting sanctions improves their financial management, risk management and ability to compete financially in contrast to 22 per cent, 30 per cent and 15 per cent respectively of clubs in the Conference North and South. Figure 4.11 also shows that sporting sanctions appear to have more of an effect on clubs in the Premier and Football League, with 37 per cent believing sporting sanctions have improved financial management, 35 per cent reporting it has improved risk management, 31 per cent answering that it has enabled them to compete financially and 29 per cent of clubs that sporting sanctions have allowed them to compete better on the field of play.

4.2. The Approved Playing Budget

The ‘Approved Playing Budget’, a mechanism introduced to restrict aggregate player wages dependent on club turnover, was established in the Football Conference in 2003. Like the ‘Salary Cost Management Protocol’ scheme in the Football League, the ‘Approved Playing Budget’ is designed to promote financial stability in member clubs and to prevent player wage costs spiralling out of control. However, the budget only applies to those clubs competing in the Conference National. As detailed in the 2004 *State of the Game*, the ‘Approved Playing Budget’ in the Conference National is calculated from a baseline figure, determined by the level of turnover at the club, which is then added to either 25 per cent average of two years’ turnover or 25 per cent of the previous year’s turnover, whichever is greater.

Figure 4.11 Sporting Sanctions

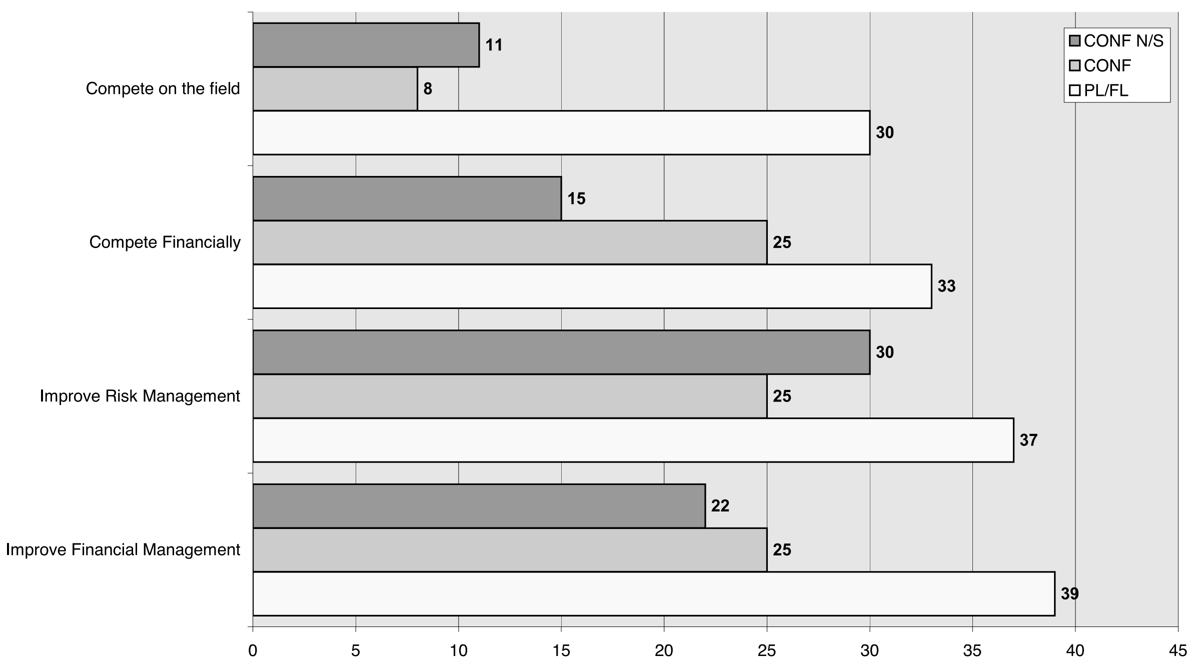


Figure 4.12 Approved Playing Budget

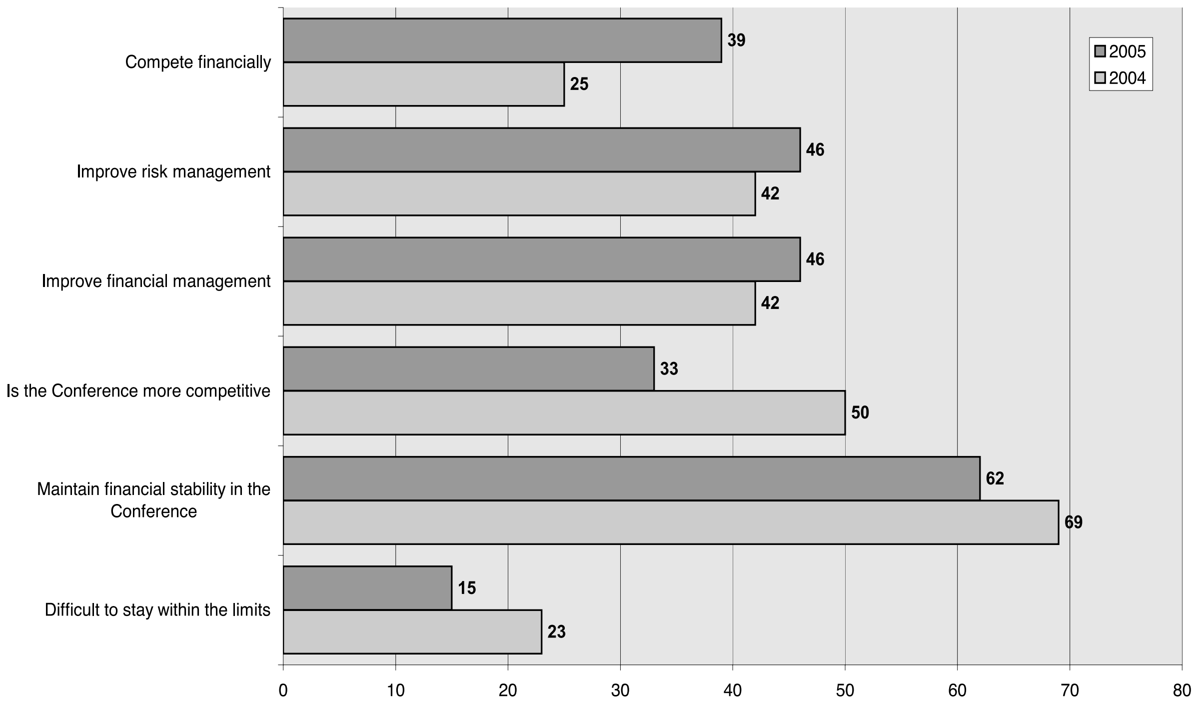


Figure 4.12 shows that 33 per cent believe that the Conference National is more competitive as a result of the 'Approved Playing Budget', compared to 50 per cent last year, while 39 per cent report it allows them to compete financially, an increase from 25 per cent last year. Only 15 per cent of clubs indicated difficulties in staying within the limits of the budget, down from 23 per cent last year. This suggests that the majority of clubs in the Conference National have wage costs under control. Furthermore, 62 percent of respondents believe that the Approved Playing Budget helps to maintain financial stability, compared to 69 per cent last year.

5. Conclusion

This is the second year that the 22 member clubs from the Conference National have been surveyed. On the whole the results are encouraging for two reasons. Firstly, corporate governance standards in the Conference National are comparable to those of clubs in the Premier and Football League, despite the clubs being smaller. Secondly, there have been increases in the number of clubs adhering to best practice as set out in the Combined Code (2003). However, the fact that there are still areas where the majority of clubs do not adhere to the Code highlights the need to develop a code specifically tailored to the needs of the football industry. In particular, given that risk is such an inherent part of the football industry, it is a matter of concern to see a fall in the number of respondents that have in place a formal risk assessment procedure.

References

Financial Reporting Council (2003) *The Combined Code on Corporate Governance*, London: Financial Reporting Council.

Higgs, D. (2003) *Review of the Role and Effectiveness of Non-executive Directors*, London: Department of Trade and Industry.

Chapter 5

Supporters' trusts and local communities

This chapter analyses the supporters' trust movement, identifying changes in the governance of trusts and clubs and looking more widely at the stakeholder environment affecting trusts, clubs and local communities. 56 responses were received from the 90 supporters' trusts across England and Wales that were established at the time of the survey – a return rate of 62 per cent, which is extremely high for a lengthy survey such as this.

The five years since the launch of Supporters Direct has seen considerable annual growth in the number of supporters' trusts, as well as in average and aggregate membership. This growth is examined below. Yet it is recent changes in attitude towards the supporters' trust concept that have perhaps been even more dramatic. This summer both Rushden and Diamonds and Stockport County moved from private ownership into the control of their supporters' trusts, following decisions made by their owners, Max Griggs and Brian Kennedy. This represents a significant shift in the way supporters' trusts are regarded. Although there have been previous examples of trusts, such as those at Chesterfield and York City, taking control of their clubs, these have been the direct result of financial crises.

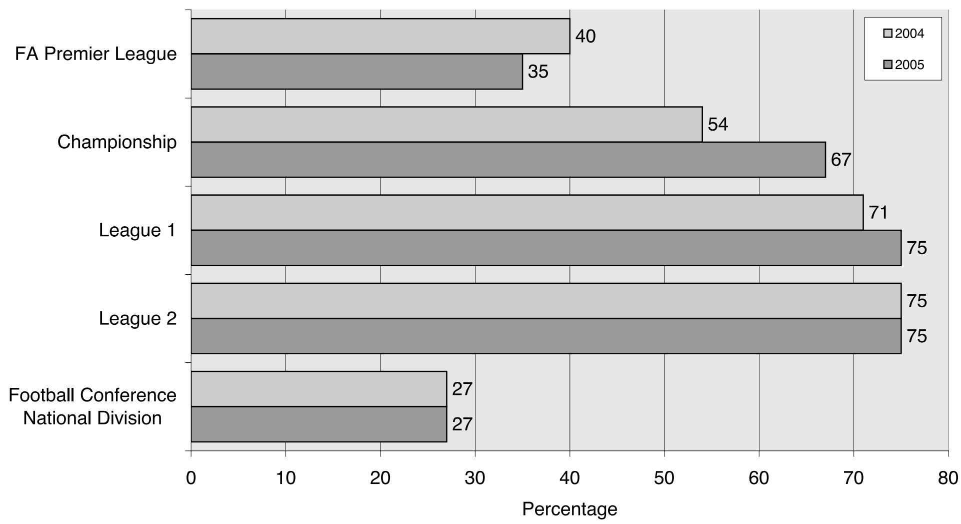
The Rushden and Diamonds Supporters' Trust now has control of the football stadium, including a conference centre, car parks, office space, a restaurant and a bar. Furthermore, the Griggs family will provide £750,000 for the club over the next two seasons. At Stockport, a number of safeguards in the deal will ensure that the club is secure at Edgeley Park, including an option to buy the ground should circumstances permit it.

This principle of democratic supporter ownership has also been promoted at the highest level of the European governance pyramid. UEFA's philosophy, as set out in its *Vision Europe* strategy document, declares: 'Football can have an important role to play as a democratic showcase by helping people, through the democratic football structures, to organise themselves and participate in organised society – football should be open to everyone at all levels' (UEFA, 2005, 4.1.1). UEFA's vision is for 'all clubs [to be] controlled and run by their members – e.g. supporters – according to democratic principles' (UEFA, 2005, 3.1.4).

1. Trends in the supporters' trust movement

During the 2004/05 season, supporters' trusts were in operation at 65 clubs within the FA Premier League, Football League and the Football Conference National Division, representing 57 per cent of all clubs in those leagues – up from 55 per cent (63 supporters' trusts) in

Figure 5.1 Percentage of supporters' trusts by league and division



2003/04.[1] (The figure of 90 trusts referred to above includes clubs below the Conference National Division.)[2]

The divisional breakdown of supporters' trusts follows a similar pattern to previous years. Figure 5.1 shows the percentage of supporters' trusts in each division. The percentages have risen in the Championship (now 67 per cent) and League 1 (75 per cent). In both League 1 and League 2, 18 of the 24 clubs now have an established supporters' trust. The proportion of clubs in the FA Premier League with an established supporters' trust has fallen from 40 per cent in 2004 to 35 per cent in 2005, due to the relegation of Leeds United, Leicester City and Wolverhampton Wanderers, all clubs with established supporters' trusts.

The vast majority of supporters' trusts responding (95 per cent) are incorporated as Industrial and Provident Societies (IPSs), compared to 94 per cent of trusts responding to the 2004 survey.[3]

Tables 5.1–5.5, on the following pages, report supporters' trusts by league and division, looking at their shareholding, membership and board representation.[4]

[1] Of these 65 trusts, 45 completed the survey – a response rate of 69%.
[2] Except where indicated, the figures report returns from all 56 responses from the 90 trusts.
[3] The IPS Constitution was developed as a set of 'Model Rules' by Kevin Jaquiss of Cobbetts Solicitors: see Jaquiss (2003), available from www.football-research.bbk.ac.uk/research.htm
[4] Where 2005 data were unavailable, 2004 data were adapted to reflect any changes, e.g. differences in home gate between 2003/04 and 2004/05.

Table 5.1 Supporters’ trusts in the FA Premier League						
CLUBS	**Trust Established**	**Shareholding[5]**			**Membership as % of average home gate[6]**	**Supporter representation on club board[7]**
		Nominal	**Significant[8]**	**Majority or control**		
Arsenal	✓	✓			**1**	
Aston Villa	✓	✓			**1**	
Birmingham City						
Blackburn Rovers						
Bolton Wanderers						
Charlton Athletic						✓[9]
Chelsea						
Crystal Palace	✓				**5**	
Everton						
Fulham	✓				**5**	
Liverpool						
Manchester City						
Manchester United	✓				**44**	
Middlesbrough						
Newcastle United						
Norwich City	✓	✓			**3**	
Portsmouth						
Southampton						
Tottenham Hotspur	✓	✓			**3**	
West Bromwich Albion						
TOTAL	**7 (35%)**	**4 (20%)**	**0 (0%)**	**0 (0%)**	**Average 9%**	**1 (5%)**

[5] Includes share capital owned outright by the trust and shares whose votes are proxied to the trust.
[6] Figures have been rounded up to the nearest whole percentage.
[7] Structures of clubs can be complex, with characteristics such as holding companies and two-tier Board systems, making ‘Board representation’ mean different things according to the specific context. ‘Board’ is used here to indicate the structure that conducts the strategic and financial decision-making.
[8] The classification of ‘significant’ shareholding varies according to the type of company structure. At listed PLCs, a ‘significant’ shareholding can be anything over 1% of share capital. At private limited companies, or PLCs that are not listed, a ‘significant’ shareholding is defined as anything over 5%.
[9] Although there is no trust at Charlton, the club does have a supporter-elected director.

Table 5.2 Supporters' trusts in the Championship

CLUBS	Trust Established	Shareholding: Nominal	Shareholding: Significant	Shareholding: Majority or control	Membership as % of average home gate	Supporter representation on club board
Brighton & Hove Albion						
Burnley	✓	✓			**5**	
Cardiff City						
Coventry City	✓				**1**	
Crewe Alexandra						
Derby County	✓				**3**	
Gillingham	✓				**1**	
Ipswich Town	✓	✓			**2**	
Leeds United	✓	✓			**1**	
Leicester City	✓				**5**	✓[10]
Millwall	✓	✓			**1**	
Nottingham Forest						
Plymouth Argyle	✓				**N/A**	✓
Preston North End						
Queens Park Rangers	✓	✓			**1**	
Reading	✓	✓			**9**	
Rotherham United	✓				**9**	✓
Sheffield United						
Stoke City	✓				**1**	
Sunderland						
Watford	✓		✓		**10**	
West Ham United	✓	✓			**N/A**	
Wigan Athletic						
Wolverhampton Wanderers	✓				**1**	
TOTAL	**16 (67%)**	**7 (29%)**	**1 (4%)**	**0 (0%)**	**Average 4%**	**3 (13%)**

[10] The Foxes Trust has an observer attending the Board meetings of Leicester City football club.

Table 5.3 Supporters' trusts in League One

CLUBS	Trust Established	Shareholding Nominal	Shareholding Significant	Shareholding Majority or control	Membership as % of average home gate	Supporter representation on club board
AFC Bournemouth	✓		✓		28	✓
Barnsley	✓				7	
Blackpool						
Bradford City	✓	✓			8	
Brentford	✓			✓[11]	21	✓
Bristol City						
Chesterfield	✓			✓	34	✓
Colchester United						
Doncaster Rovers	✓	✓			9	✓
Hartlepool United						
Huddersfield Town	✓				5	
Hull City	✓				3	
Luton Town	✓		✓		8	✓
MK Dons						
Oldham Athletic	✓	✓			8	✓
Peterborough United	✓	✓			11	
Port Vale	✓	✓			3	
Sheffield Wednesday	✓		✓		2	
Stockport County	✓			✓	20	✓
Swindon Town	✓		✓		3	
Torquay United						
Tranmere Rovers	✓				N/A	
Walsall	✓	✓			2	
Wrexham	✓				11	
TOTAL	**18 (75%)**	**6 (25%)**	**4 (17%)**	**3 (13%)**	**Average 11%**	**7 (29%)**

[11] Bees United served a notice of exercise of its option agreement to acquire the majority shareholding in Brentford FC Limited and associated companies on 30th September 2005, and have until 31st January 2006, to complete the transaction.

Table 5.4 Supporters' trusts in League Two

CLUBS	Trust Established	Shareholding			Membership as % of average home gate	Supporter representation on club board
		Nominal	Significant	Majority or control		
Boston United						
Bristol Rovers	✓				**1**	
Bury	✓		✓		**17**	
Cardiff City	✓		✓		**14**	✓
Cheltenham Town						
Chester City	✓		✓		**6**	✓
Darlington	✓				**14**	✓
Grimsby Town	✓	✓			**7**	
Kidderminster Harriers	✓	✓			**4**	
Leyton Orient	✓	✓			**6**	✓
Lincoln City	✓		✓		**30**	✓
Macclesfield Town						
Mansfield Town	✓		✓[12]		**5**	
Northampton Town	✓		✓		**11**	✓
Notts County	✓		✓		**27**	✓
Oxford United	✓				**3**	
Rochdale	✓	✓			**12**	
Rushden & Diamonds	✓			✓	**30**	✓
Scunthorpe United						
Southend United	✓	✓			**23**	
Shrewsbury Town						
Swansea City	✓		✓		**47**	✓
Wycombe Wanderers	✓		✓		**4**	✓
Yeovil Town						
TOTAL	**18 (75%)**	**5 (21%)**	**9 (38%)**	**1 (4%)**	**Average 15%**	**10 (42%)**

[12] Team Mansfield, the supporters' trust at Mansfield Town, have negotiated a 3.3% stake in the football club by purchasing 'community shares', which are governed by a shareholders' agreement with clauses designed specifically to protect the trust's rights as minority shareholders. Consequently they have been classified as having a 'significant' shareholding.

Table 5.5 Supporters' trusts in the Football Conference National Division						
CLUBS	Trust Established	Shareholding			Membership as % of average home gate	Supporter representation on club board
		Nominal	Significant	Majority or control		
Accrington Stanley						
Aldershot Town						
Barnet						
Burton Albion						
Canvey Island						
Carlisle United	✓		✓		**16**	✓
Crawley Town						
Dagenham & Redbridge						
Exeter City	✓			✓	**69**	✓
Farnborough Town	✓				**11**	
Forest Green Rovers						
Gravesend and Northfleet	✓		✓		**15**	
Halifax Town	✓		✓		**20**	✓
Hereford United						
Leigh RMI						
Morecambe						
Northwich Victoria						
Scarborough						
Stevenage Borough						
Tamworth						
York City	✓			✓	**64**	✓
Woking						
TOTAL	**6 (27%)**	**0 (0%)**	**3 (14%)**	**2 (9%)**	**Average 33%**	**4 (18%)**

1.1 Trust membership

This year's survey again records increases in both aggregate and average membership of supporters' trusts. The aggregate membership of the 55 trusts that provided figures was 62,549, an increase of 20,253 compared to last year and an increase of 55,801 since the first survey in 2001. These figures, however, relate specifically to the aggregate membership of supporters' trusts that responded to the survey. To compare aggregate membership over time, these figures need to be scaled up to reflect the total number of supporters' trusts in each year of the survey. It can be seen from Figure 5.2 that, when scaled up accordingly, aggregate membership in 2005 has grown to over 100,000 – an increase of over 30,000 on 2004.

Average membership of all supporters' trusts has risen from 337 in 2001, to 467 in 2002, 606 in 2003, 755 in 2004, and 1137 in 2005 (Figure 5.3). However, these membership figures are affected by the disproportionately large membership, over 30,000, of Shareholders United (the supporters' trust at Manchester United).

Trust membership as a percentage of the football club's average home gate is reported in Tables 5.1-5.5 for trusts in the FA Premier League, the Football

Figure 5.2 Aggregate membership of supporters' trusts 2001-2005

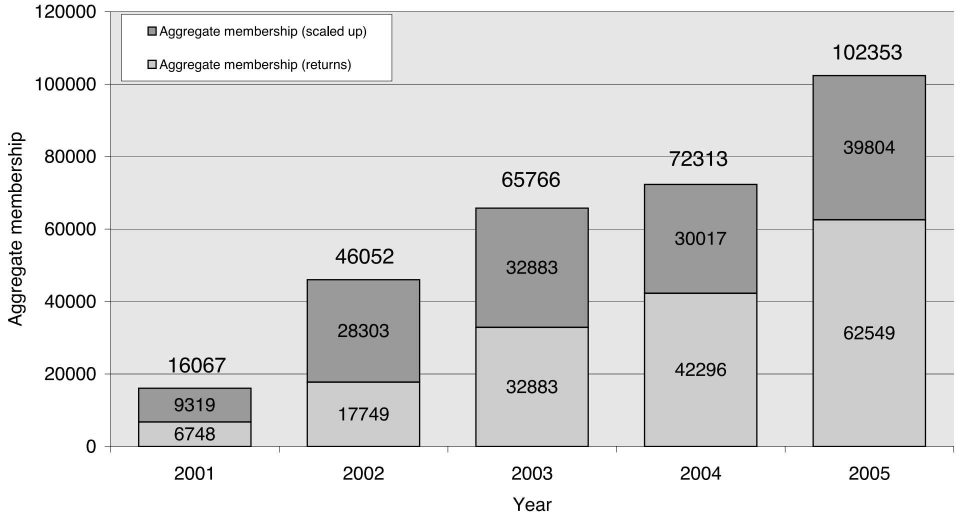


Figure 5.3 Average membership of supporters' trusts 2001-2005

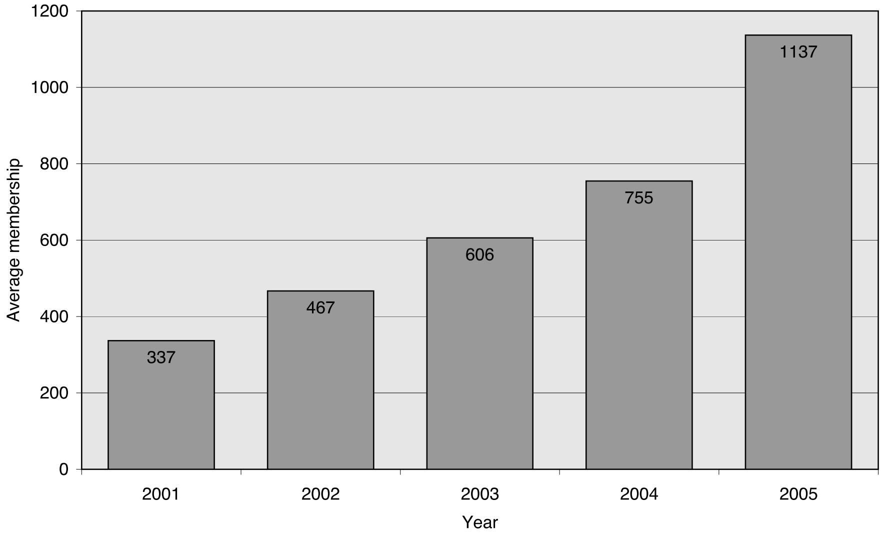
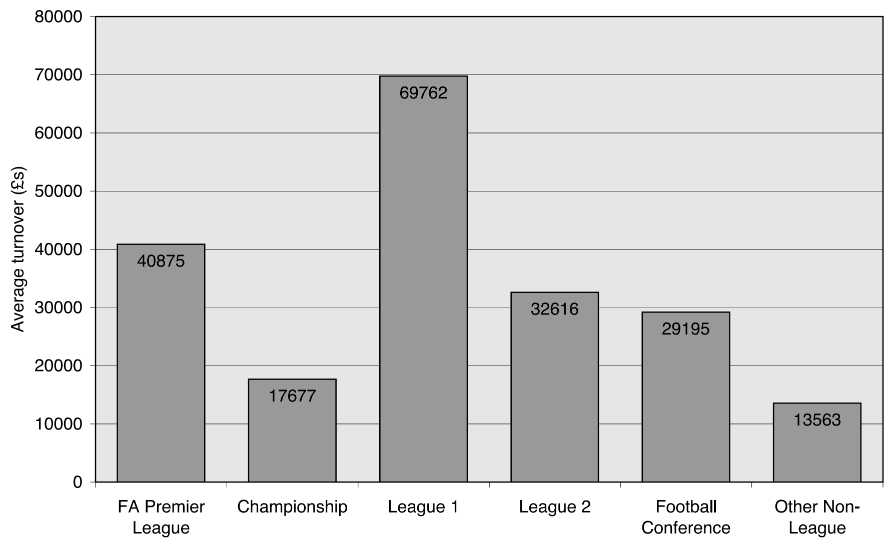


Figure 5.4 Average turnover of supporters' trusts by league and division

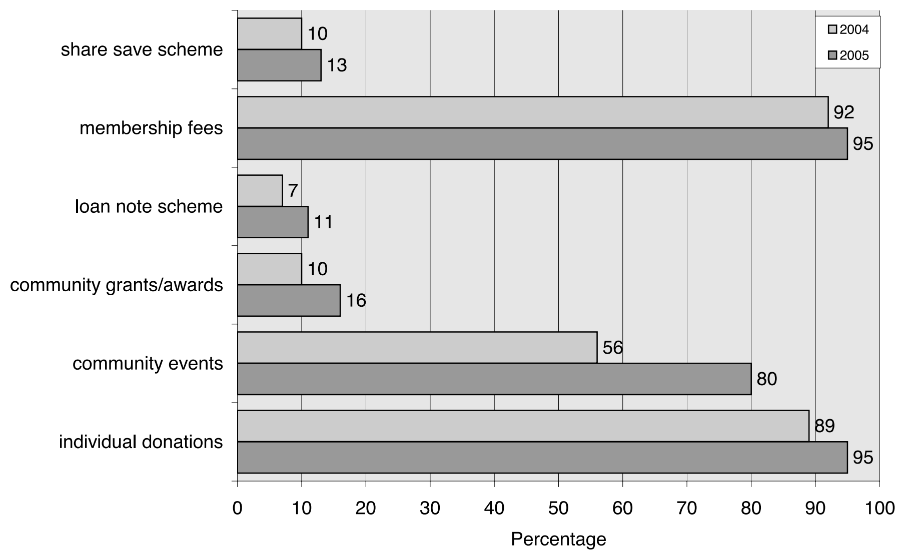


League and the Football Conference National Division. Expressed in this way, across those leagues and divisions, average trust membership is 12 per cent of the home gate. The FA Premier League figure of nine per cent is high due to Shareholders United. In the Championship, average trust membership as a percentage of home gate is four per cent. In League 1 it is 11 per cent, in League 2 it is 15 per cent, and in the Football Conference National Division it is 33 per cent.

1.2 Turnover

Supporters' trusts continue to generate impressive turnovers. The survey found that the average turnover for a supporters' trust in 2005 was £35,998, compared to £33,923 in 2004. Figure 5.4 looks at the average turnover for supporters' trusts in 2005 by league and division.

Figure 5.5 How have supporters' trusts raised money?



Our survey also investigated the ways in which supporters' trusts have been able to raise money. The findings show that trusts are becoming more adept at raising funds in a variety of ways. Figure 5.5 displays the results from this year's survey and compares them with the figures from 2004. The vast majority of trusts (95 per cent) reported that they raised money via membership fees and individual donations, as was the case in 2004. Yet it can be seen that in 2005 a greater proportion of trusts are raising money in each of the ways listed.

A large proportion of trusts (80 per cent) indicated that they generated income through community events, compared to 56 per cent in 2004. This may be related to the particular strategies employed by supporters' trusts to achieve their multiple objectives. These are discussed in greater detail below (Section 1.4), but it is worth pointing out that a number of trusts reported that the strategies they used to 'strengthen links between the club and the community' and to 'promote and widen support for the club' included organising community events. As such, it may be that generating income is not the sole objective for organising events such as these. It may be a useful by-product of strategies designed mainly to promote the trust and the club within the local community.

Supporters' trusts are also becoming more successful in attracting grants or awards: 16 per cent of trusts indicated that they had generated income in this way, up from ten per cent in 2004. As in 2004, the majority of trusts (57 per cent) applied to Supporters Direct. However, as Figure 5.6 shows, a greater percentage of trusts have also made use of other funding streams.

This may point to increasing awareness of the supporters' trust movement and the integration of trusts with local community organisations. It is important for supporters' trusts to be informed of the range of funding streams available and of how to be successful in grant applications. This may be something for members of trust boards to consider when deciding what skills are needed in co-optees.

1.3 Corporate governance in trusts

The previous sections have reported the size – in terms of membership and turnover – of supporters' trusts. Yet it is important to recognise that the increasing influence of supporters' trusts is related to more than growth in numbers. Promoting good corporate governance through transparent, representative structures is a key objective of the supporters' trust movement. It is important, therefore, that supporters' trusts themselves employ best practice in this area. This year's survey again investigated the specific governance mechanisms that supporters' trusts have in place. The particular officers included on the boards or committees of supporters' trusts are reported in Table 5.6.

Figure 5.6 Which funding streams have been used by supporters' trusts?

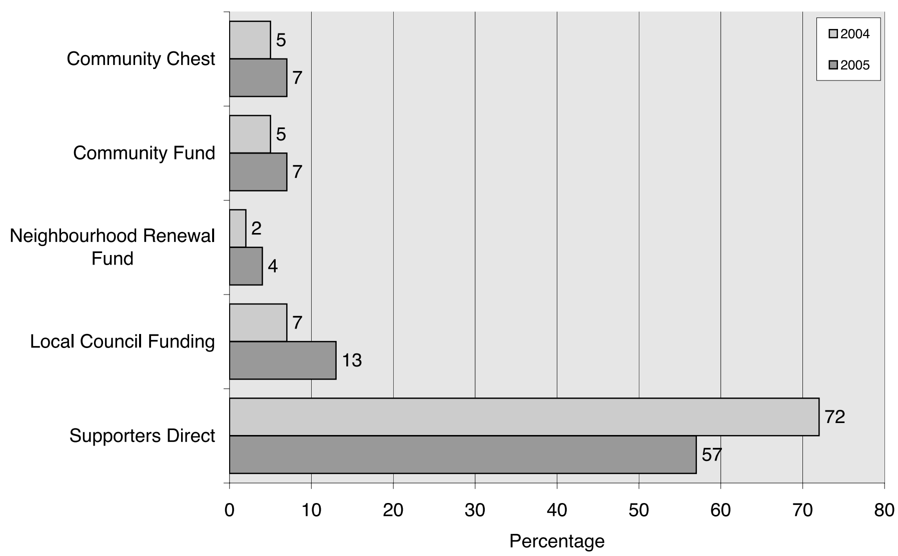


Table 5.6 Officers on the boards or committees of supporters' trusts

	Percentage of respondents	
	2004	**2005**
Chair	98	95
Treasurer	97	98
Secretary	98	98
Fundraising	54	56
Membership	74	69
Media/Communications	75	69
Legal	26	17

As Table 5.6 shows, nearly all trusts have individuals occupying the positions of chair, treasurer and secretary. A large majority of trusts have a membership officer (69 per cent) and/or a communications officer (69 per cent). While the survey found that only 17 per cent of trusts had a nominated legal officer, 34 per cent of trusts reported that their board or committee had legal expertise. In addition, a number of trusts (20 per cent) indicated that they had officers dedicated to more commercial activities, including merchandising, website development and business liaison.

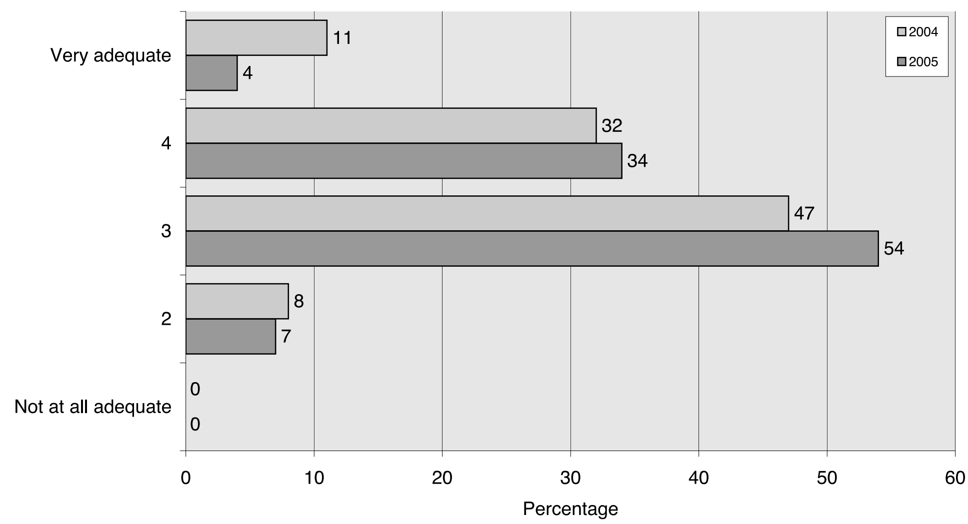
As last year's report pointed out, Industrial and Provident Society rules require the co-option of board members to ensure that boards have adequate skills, serve community interests and are properly representative.[13] In 2005, 80 per cent of trusts had done so, up from 75 per cent in 2004. Despite this, respondents still displayed concern over whether the skills base on their board was adequate for trust development: only 38 per cent of trusts considered their skills base to be adequate or very adequate, compared to 43 per cent in 2004 (Figure 5.7).

It is important, therefore, that trusts look for ways to improve this area of internal governance. A first step may be to undertake a training needs analysis: just seven per cent of trusts indicated that they had carried this out, up from five per cent in 2004. This is one mechanism that might be usefully adopted by other trusts in order to identify what skills their boards require. Such a process can then be followed by training and co-options.

In addition to the composition of trust boards and committees, our survey examined whether or not trusts employed staff to help run their organisations. Nine per cent of supporters' trusts reported that they employed full or part time staff, very similar to last year's figure.

Nearly all trusts meet to discuss strategy (95 per cent), yet only 34 per cent of trusts have a business or strategic plan. Both of these figures are slightly down on last year's results (Table 5.7). This is not to suggest that supporters' trusts are unclear concerning their objectives and the strategies needed to achieve these objectives. Indeed, this year's survey provides evidence that trusts are pursuing a number of specifically designed policies. However, Table 5.7 does indicate that supporters' trusts could formalise these strategies more effectively by adopting a one-year, three-year, or five-year business or strategic plan, approved by the membership at a General Meeting.

Figure 5.7 How adequate is the skills base on trust boards or committees?



[13] See Jaquiss (2003), available from www.football-research.bbk.ac.uk/research.htm

Table 5.7 Strategy and business plans of supporters' trusts

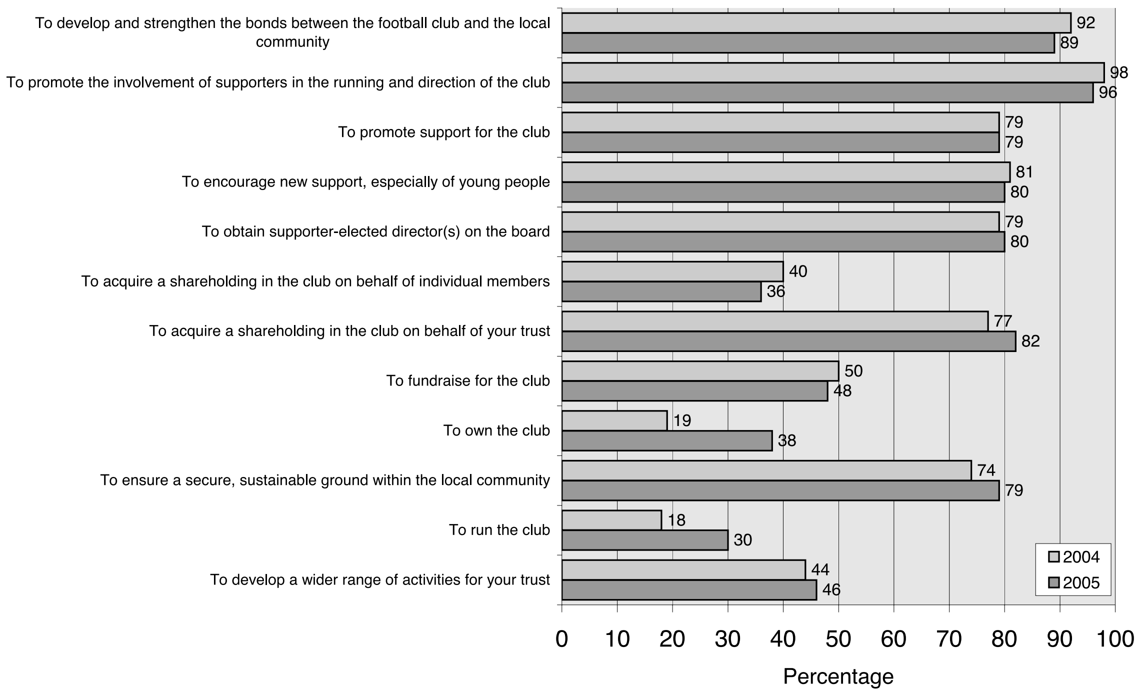
		Percentage of Respondents	
		2004	**2005**
Does board meet to discuss strategy?	**Yes**	98	95
Do you have a business or strategy plan?	**Yes**	42	34
If 'yes', what kind of plan do you have?	**1 year**	57	65
	3 year	29	6
	5 year	14	29
Is the plan approved by the membership at a General Meeting?	**Yes**	39	16

1.4 Objectives and strategies

The survey asked trusts to describe how important they felt particular objectives to be. The vast majority of respondents considered it important or very important to 'promote the involvement of supporters in the running and direction of the club' (96 per cent) and to 'develop and strengthen the bonds between the football club and the local community' (89 per cent).

Figure 5.8 examines the responses and compares them to those from 2004. They are broadly similar in most categories. However, it is interesting to note that 38 per cent of trusts now consider 'owning the club' to be important or very important, compared to 19 per cent in 2004; and 30 per cent consider 'running the club' to be important or very important, compared to 18 per cent in 2004. The continued progress of trust-run clubs, such as Chesterfield and York City, and the

Figure 5.8 Which objectives do supporters' trusts consider either important or very important?



recent transfers of ownership at Rushden and Diamonds and Stockport County may have demonstrated to other supporters' trusts that owning and running their clubs are achievable objectives.

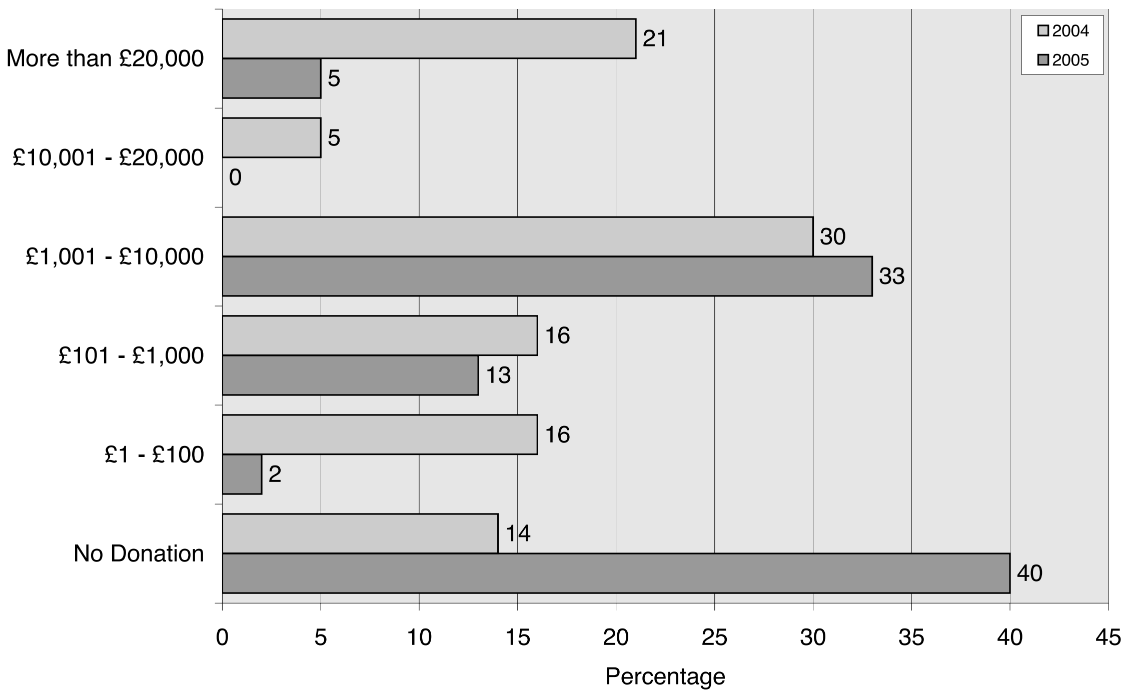
In addition to questions regarding their objectives, trusts were asked to describe the various strategies they employed to achieve these objectives. The responses revealed a range of approaches, reflecting the size of trust and their level of development in each area. When describing strategies for 'developing and strengthening links between the club and the community', some trusts had specific community liaison officers, or community sub-groups and strategies involving the local council, voluntary organisations, local schools, or local youth teams. Many of the strategies (over 35 per cent) for 'promoting the involvement of supporters in the running and direction of the club' involved dialogue with the club in various forms: at fans' liaison committees, at AGMs, or at meetings with CEOs. Some trusts reported they found it necessary to demonstrate to the clubs the credibility of their organisations, particularly by contributing financially.

2. Relationships between trusts and clubs

2.1 Board representation

One of the defining aspects of the relationship between a supporters' trust and a football club is whether or not the trust is represented on the board of the company running the football club: 22 per cent of clubs in the FA Premier League, Football League and Football Conference National Division have supporter representation (25 clubs) and, apart from at Charlton Athletic and Leyton Orient, this representation stems from the work of supporters' trusts (Tables 5.1–5.5). It is in League 1 and League 2 that supporter representation is most widespread: 29 per cent of clubs in League 1 and 42 per cent of clubs in League 2 have supporter representation at board level. As last year's *State of the Game* pointed out, this indicator of trust strength is perhaps linked to insolvency proceedings, since the majority of clubs that have undergone insolvency proceedings are from League 1 and League 2 (Hope, 2005).

Figure 5.9 What donations have supporters' trusts made to football clubs?



2.2 Donations and investments

Our survey demonstrates that while supporters' trusts are still making significant donations to football clubs, such incidences are decreasing. Figure 5.9 shows the breakdown of these donations, compared to the previous year.

As discussed in last year's *State of the Game*, the level of donations is perhaps surprising given that one of the principles of the supporters' trust movement is that trusts should not simply make donations to the clubs, but instead should look to secure ownership stakes in return for investment. However, as discussed above (Section 1.4), some trusts found that financial contribution was often one way of becoming a credible organisation in the eyes of the club – a necessary step in achieving other objectives.

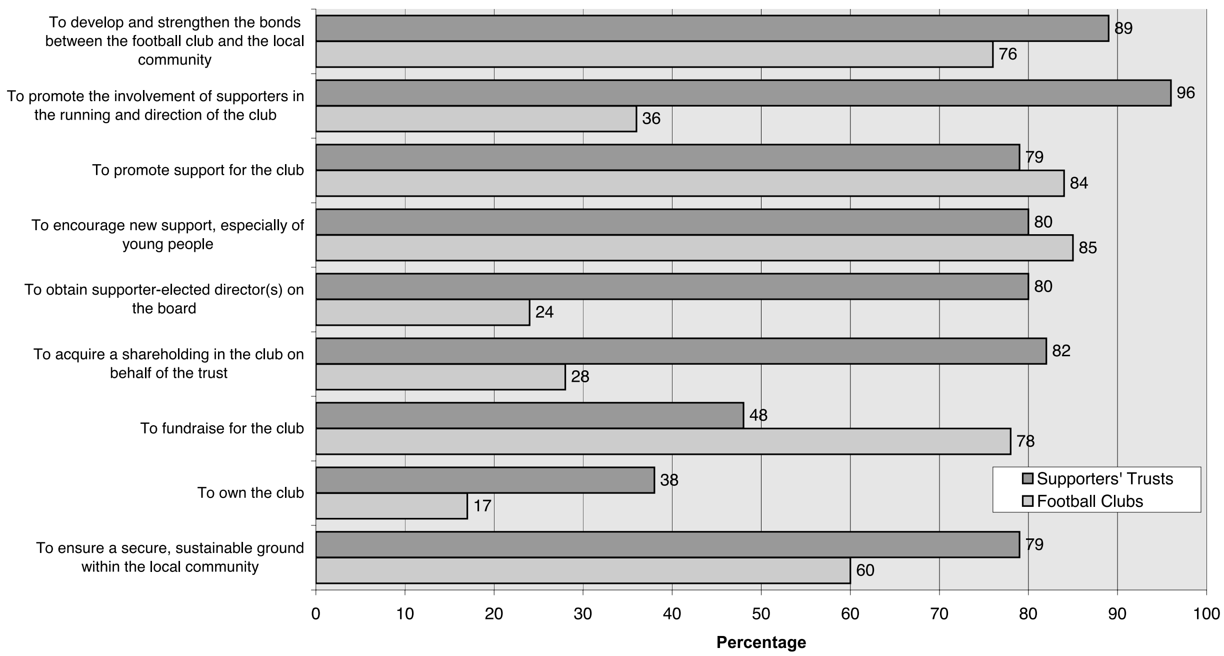
Our analysis does point to a downturn in the number of trusts making donations. This may be due to the fact that the increasing influence of the supporters' trust movement means that fewer trusts are required to demonstrate their credibility through fundraising for the club. This is borne out by results from this year's survey regarding the priorities of supporters' trusts. Almost a third of supporters' trusts (29 per cent) did not consider fundraising for the club an important objective – up from 16 per cent in 2004.

2.3 Differing perspectives

The vast majority of supporters' trusts consider as key objectives democratic supporter ownership, and football clubs acting as civic and community institutions. How far their endeavours have realised these objectives has varied. Much of the progress made by supporters' trusts has depended on interaction – shareholding, joint initiatives, formal dialogue – with their football clubs. To consider the differing perspectives that may help or hinder this kind of interaction, our survey questioned how football clubs viewed key objectives of the supporters' trust movement. Figure 5.10 compares the responses of the clubs with those of the trusts.

As Figure 5.10 illustrates, there is a divergence of views between clubs and trusts regarding the relative importance of a series of objectives. For example, 96 per cent of supporters' trusts consider 'promoting supporter involvement in the running of the club' to be either important or very important, compared to only 36 per cent of clubs. Similarly, while 80 per cent of trusts regard 'obtaining a supporter-elected director on the

Figure 5.10 Which objectives of supporter's trusts do trusts and football clubs consider either important or very important?



Board' as important or very important, only 24 per cent of clubs agree. Furthermore, 78 per cent of clubs considered fundraising an important or very important objective of the supporters' trust movement, compared to just 48 per cent of trusts.

These results highlight the often conflicting perspectives of clubs and trusts and make clear some of the difficulties faced by supporters' trusts as they attempt to achieve their objectives. Yet certain areas – developing bonds with the community, promoting and encouraging support for the club – do find strong agreement between clubs and trusts.

2.4 Working relationships

The relationship between a supporters' trust and its club depends on a range of factors, such as the ownership structure of the club, the size of the supporters' trust, and the ability of key members of both organisations to form working relationships. The previous section examined the importance that both trusts and clubs attached to a range of issues that affect their relationship. Our survey analysed the key relationship between supporters' trusts and football clubs, drawing on the responses of both.

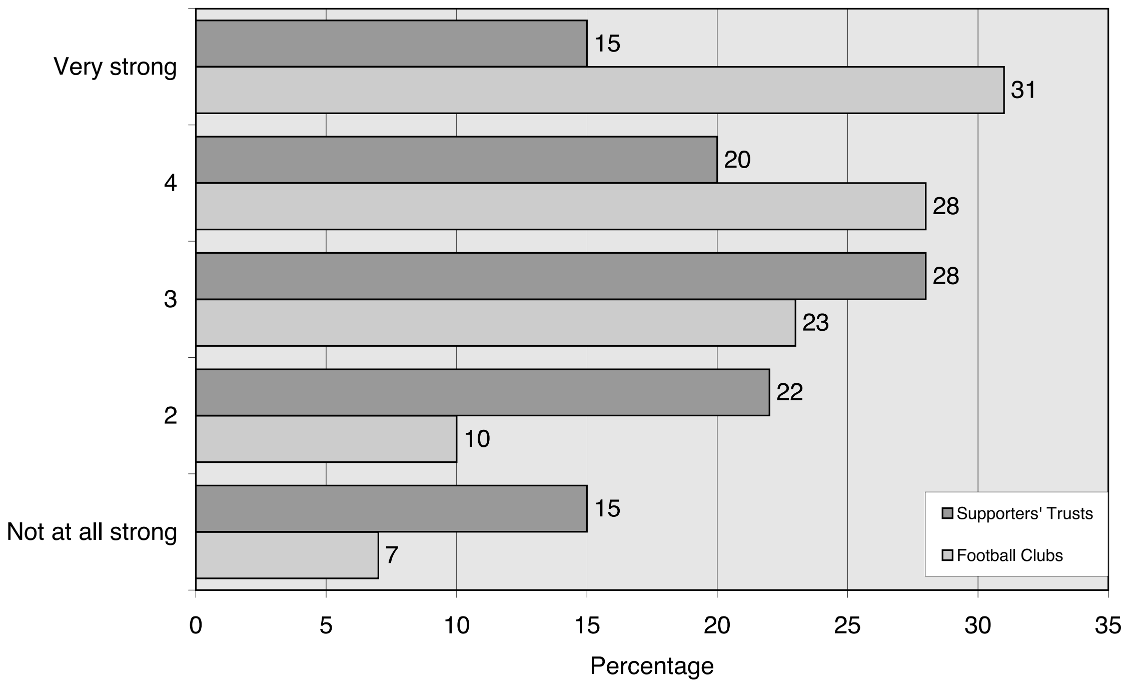
The survey asked supporters' trusts to describe the strength of the link they had with their football clubs (see Figure 5.11). In response, 35 per cent of trusts indicated that the relationship was either strong or very strong. By comparison, 59 per cent of the clubs with supporters' trusts that responded to the survey reported that they had strong or very strong links with their trusts.

This year's survey also asked supporters' trusts to describe the nature of their relation with their clubs. Several respondents referred to changes in the nature of their relationship due to the arrival or departure of key figures at the club. 17 per cent mentioned *trust* as a key factor in the relationships they had with their clubs. Trust has often been considered a critical element in stakeholder relationships and supporters' trusts need to be aware of this and look at ways of building trust.

2.5 Joint initiatives

Joint initiatives have proved an effective way to engender trust between supporters' trusts and clubs. These include financial ventures, such as the sponsorship of the club's junior section or running the

Figure 5.11 How strong do supporters' trusts and football clubs consider their links to be?



club shop; community events, including raffles and fans' games; and transport schemes. Some respondents also drew attention to more complex initiatives, such as youth development programmes. When asked whether or not they would be interested in starting – or continuing to work on – joint initiatives with supporters' trusts, 76 per cent of clubs said they would, and only five per cent said they wouldn't (19 per cent didn't know).

3. Trusts, clubs and communities

The relationship between a football club and its community has become increasingly important for a number of reasons. Good corporate governance requires companies to have a dialogue, not only with shareholders, but also with other stakeholders. The importance of the local community to a company is made explicit in the OECD *Principles of Corporate Governance* (2004):

'Boards are expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities.' (p. 58)

Financial analysis of football clubs suggests that, as growth rates in broadcasting and sponsorship revenues decline, stadium revenues become more significant. The latest Deloitte and Touche *Annual Review of Football Finance* maintains that 'clubs face a challenge to balance maximising short term income from season and matchday tickets, with getting their community through the turnstiles to ensure their long term health and fulfil their customer charters and corporate social responsibilities' (Deloitte and Touche, 2005, p. 48).

Political changes in the last decade have also emphasised the importance of local communities: combating social exclusion and promoting community cohesion have been key priorities for successive Labour governments. In addition, academic attention has focused on clubs and their community relationships. A three-year research project, funded by the Football Foundation and completed in 2005, has provided a detailed investigation into, and re-evaluation of, the whole concept of football's relations with, and impact upon, its various 'communities' (Brown *et al*, forthcoming).

It is clear that the local community is a key stakeholder in football. Yet, as the *State of the Game 2003* report pointed out, local communities have traditionally had few 'formal mechanisms for representation within clubs and none within national authorities that govern the game' (FGRC, 2003, p. 13). This situation has changed somewhat in recent years. The growth of the supporters' trust movement and the development of Football in the Community schemes, as well as the work of the Federation of Stadium Communities (FSC), have provided local communities with a number of representative vehicles. The rest of this chapter looks at the role that Football in the Community plays in relationships between football clubs, supporters' trusts and their local communities.

3.1 Football in the Community

Football in the Community has provided a valuable avenue for football clubs to form bonds with the local community. Schemes now operate at nearly all professional clubs, as well as clubs further down the football pyramid, although the size and complexity of these schemes vary from club to club. Despite their diverse nature, these schemes have traditionally organised themselves around core activities, including in- and after-school coaching programmes, Saturday schemes and holiday coaching courses. In addition, many schemes are involved in social inclusion work, including educational projects and projects aimed at combating drug-taking and anti-social behaviour.

The benefits of Football in the Community schemes are widely recognised as accruing not only to local communities, but also to clubs, in the form of building positive reputations and encouraging new support. However, a lack of formal evaluation has meant that these benefits have been largely unquantified. The Independent Football Commission recognised this in its 2003 *Annual Report*, but also noted that 'welcome initiatives have been taken to evaluate Football in the Community and programmes outside the national scheme' (2003, p. 42). One of these initiatives was a research project conducted by Manchester Metropolitan University examining the national Football in the Community programme (McGuire and Fenoglio, 2004). This review, carried out between October 2002 and October 2003, found many schemes making substantial contributions to community life, but also that 'under-resourcing has affected the impact of the programme for a number of years' (McGuire and Fenoglio, 2004, p. 129).

3.2 Football clubs and Football in the Community

Given that interacting with the local community, as a key stakeholder, is one aspect of good corporate governance, and given that Football in the Community is often considered the most appropriate form of contact between a club and its community (Perkins, 2000), the relationship between a football club and its Football in the Community scheme is crucial. This year's *State of the Game* survey examined this relationship from the perspective of football clubs, asking them to describe the position and status of the schemes at their clubs. The results are shown in Figure 5.12.

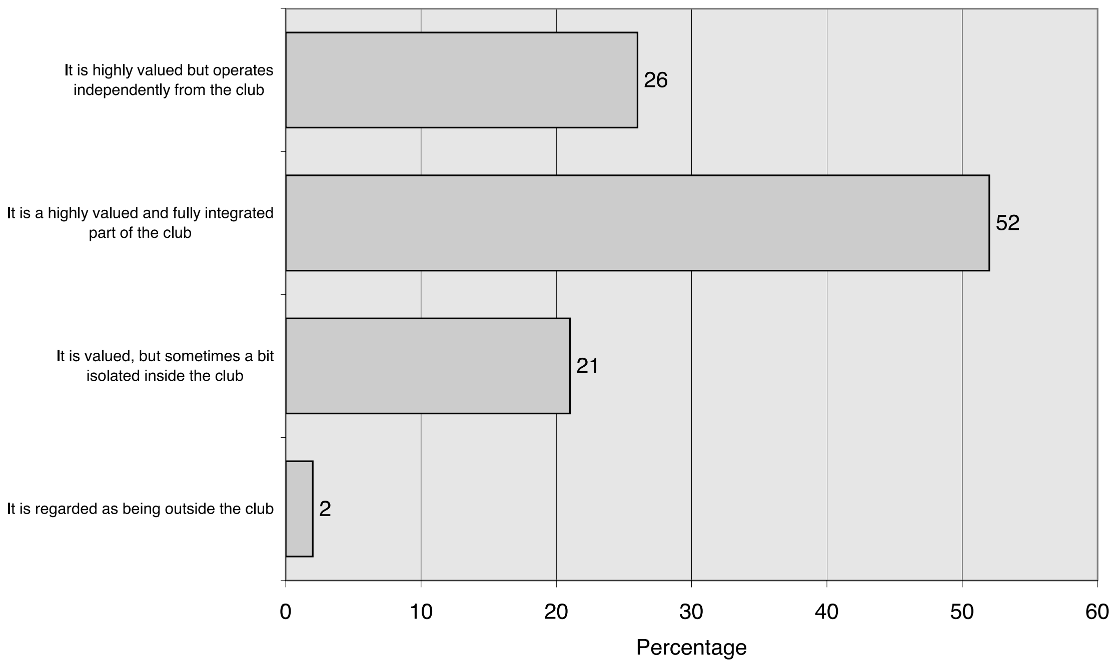
78 per cent of clubs reported that the schemes were highly valued, either operating independently or fully integrated within the club. It is interesting to compare these results with the review of Football in the Community carried out by McGuire and Fenoglio. The survey asked Senior Community Officers their opinions on the position and status of their schemes, and their responses presented a slightly different picture: 51 per cent felt that the schemes were highly valued, whereas 45 per cent considered that the schemes were sometimes isolated.

3.3 Supporters' trusts and Football in the Community

Supporters' trusts typically list among their objectives the promotion of links between the club and the local community. Indeed, our analysis found that 89 per cent of supporters' trusts felt that 'developing and strengthening the bonds between the football club and the local community' was either an important or very important objective (Section 1.4). Similarly, a key aim of the Football in the Community business plan, adopted in 1997, is 'to encourage closer links between professional football clubs and the community'[14].

This year's survey, as part of its investigation into the stakeholder environment in football, asked supporters' trusts to describe their relationships with Football in the Community. Only 29 per cent of trusts indicated that they had strong or very strong links with Football in the Community (Figure 5.13). In addition, 73 per cent of supporters' trusts indicated that Football in the

Figure 5.12 What is the position and status of the Football In the Community scheme at the football club?



[14] The Footballers' Further Education & Vocational Training Society (2003).

Community had no influence over the way their trusts were governed (Figure 5.14).

Given their parallel objectives and the importance of partnership to both supporters' trusts and Football in the Community schemes, it is perhaps surprising that there is not more evidence of close working between them. Indeed when asked to describe their strategies for 'developing and strengthening links between the club and the community', of the trusts that responded just nine per cent mentioned working with Football in the Community.

This may be related to differing perspectives on community work. Senior Officers at Football in the Community schemes have discussed the difficulty of balancing activities relating to particular social needs with activities that are more overtly based on marketing and public relations objectives (McGuire and Fenoglio, 2004). Our survey examined the importance both clubs and trusts attached to different aspects of community work. Figure 5.15 displays the results, which demonstrate broad agreement between supporters' trusts and clubs. It is interesting to note that the vast majority of supporters' trusts (93 per cent) believed that 'creating a good public image for the club' was either important or very important. Furthermore, 73 per cent of trusts considered that 'creating additional income for the club' was either an important or very important part of community work, compared to only 61 per cent of clubs. It may have been expected that supporters' trusts would be less concerned than clubs about these more 'commercial' aspects of community work and would place more importance on particular social objectives, such as 'reducing youth crime' or 'reducing anti-social behaviour'. However, these results may reflect the fact that many supporters' trusts were formed as a result of financial crises at their clubs and that for many, financial concerns continue to dominate.

Figure 5.13 How strong do supporters' trusts consider their links with Football in the Community to be?

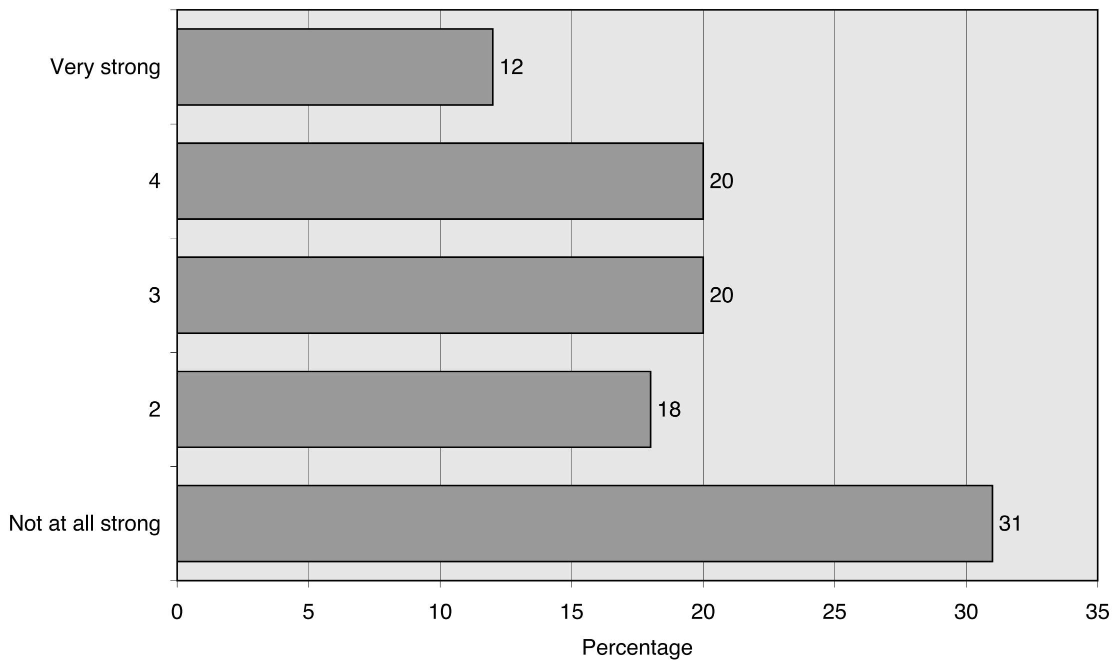


Figure 5.14 How much influence do supporters’ trusts consider Football in the Community has over the way they are governed?

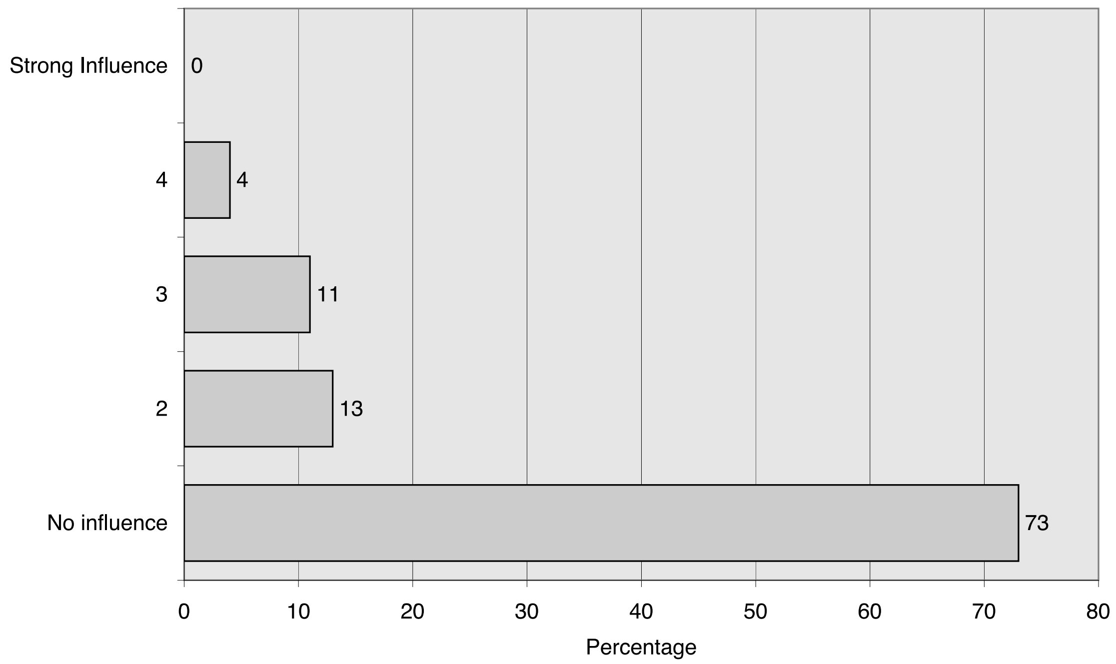
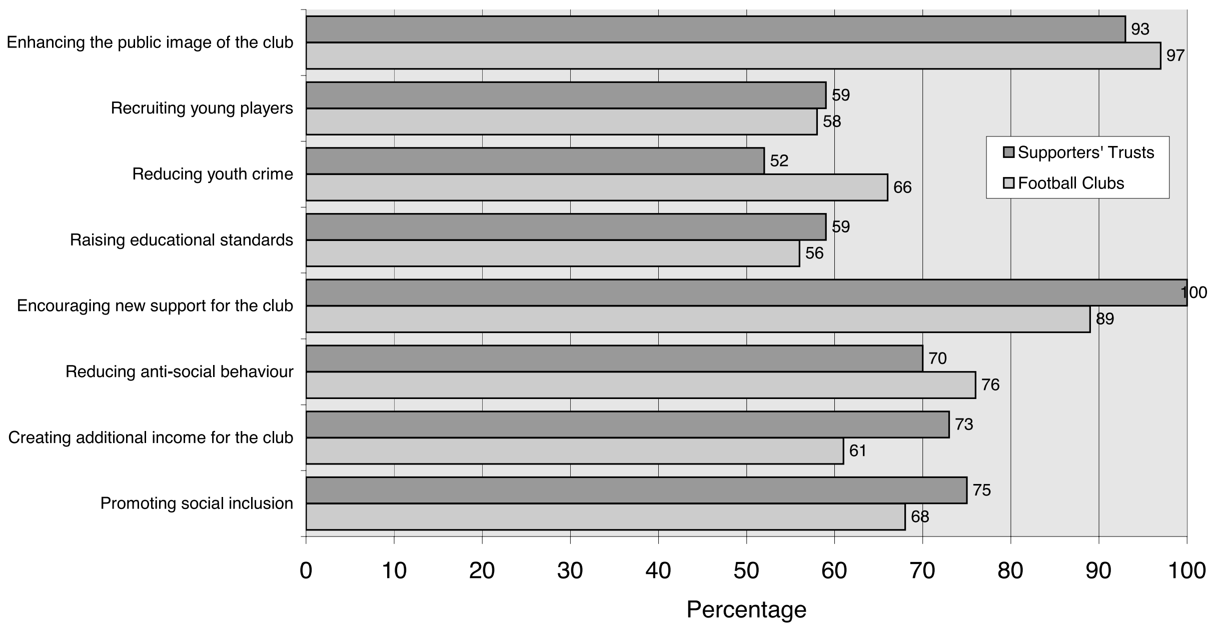


Figure 5.15 Which aspects of community work do supporters’ trusts and football clubs consider either important or very important?



4. Conclusion

The results of this year's survey demonstrate further growth in the supporters' trust movement. The number of trusts has increased, as have aggregate and average membership figures. It has been shown that supporters' trusts are, for the most part, clear about their objectives and the strategies they employ to achieve these objectives. These strategies could usefully be formalised by adopting business or strategic plans; currently only 34 per cent of trusts are doing this. This is one of the areas of governance within trusts themselves where improvement is possible.

This chapter has also looked at key relationships between supporters' trusts, football clubs and local communities. The results point to areas of convergence between trusts and clubs, as well as areas of divergence. The survey has shown that current links between supporters' trusts and Football in the Community are not particularly strong; developing closer ties between trusts, clubs and Football in the Community may benefit all of these organisations. The supporters' trust movement has continued to grow since its inception. Now, as trusts are becoming more established, it is clear that forming effective working relationships will be a crucial aspect of creating sustainability within the trust movement.

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Chapter 6

Stakeholder networks in the football industry

The purpose of this chapter is to introduce the concept of the stakeholder network as a way of looking at the football industry. Analysis of football's key stakeholders has previously focused on the responsibility of a football club to its various stakeholders and their role in the decision-making processes. A network approach to corporate governance builds on this by taking into account the interaction between stakeholder groups within a stakeholder network.

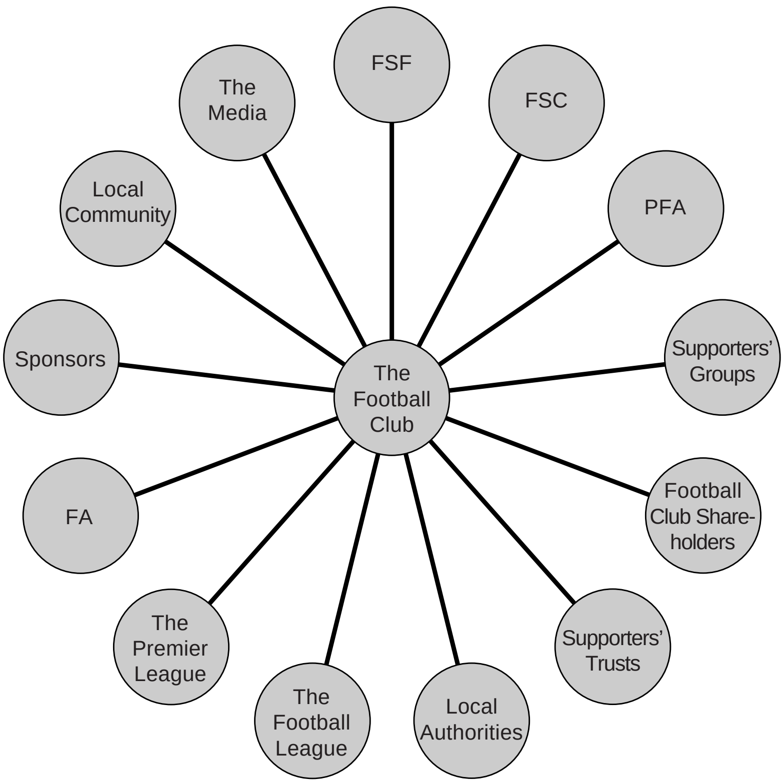
This chapter begins by summarising the stakeholder model of corporate governance in the football industry, before examining in detail the stakeholder network and its implications for the corporate governance of football clubs. This year was the first in which we asked football clubs and supporters' trusts to comment on the strength of their relationships with a number of stakeholder groups and the level of influence that stakeholders have over the way the club is governed.

1. Stakeholder analysis of the football industry

Over the course of the 1980s and 1990s, within management literature, the stakeholder model of corporate governance emerged to challenge the dominant shareholder model. The football industry is defined by distinctive supporter loyalties which separate it from conventional business. In the *State of the Game 2003* Report, we summarised the roles and interests of a number of stakeholder groups including supporters, local communities, sponsors, broadcasters, local authorities, and players. The aim was to show the pressures and influences asserted by the various stakeholders.

Traditional stakeholder models have focused on the individual relationships between a central, focal organisation and its various stakeholders. Figure 6.1 provides an example of what a traditional stakeholder diagram for a football club might look like. Describing the various stakeholders within the football industry and analysing the relationship each stakeholder has with a football club is an important part of a stakeholder approach to corporate governance. However, it is necessary to move beyond this level of analysis towards an assessment of the relationships between stakeholders and a consideration of how the corporate governance of football clubs is affected by multiple stakeholder influences.

Figure 6.1 Stakeholder Diagram of the Football Industry

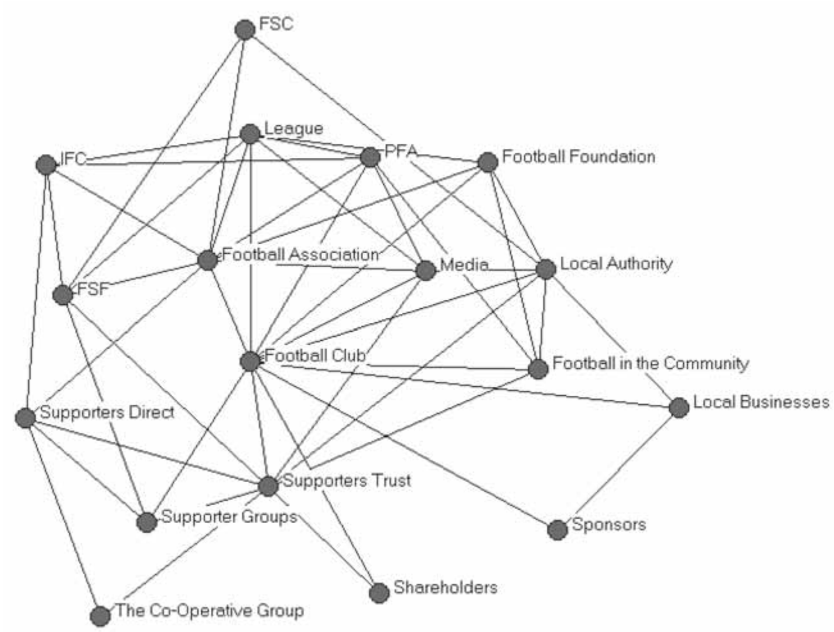


1.1 Network theory and corporate governance

Network theory, in the context of corporate governance, aims to build upon stakeholder theory by taking into account the network of inter-relationships between stakeholder groups. Figure 6.2 illustrates a stakeholder network within the football industry, which includes similar stakeholder organisations but indicates how the organisations relate to each other.

There are clear limitations to this diagram. For example, the relationship between a football club and its sponsors will be very different to the relationship between the Independent Football Commission and the Football Association. In addition, there are other organisations that could be included in a stakeholder network of the football industry. What Figure 6.2 does illustrate, though, is that the stakeholder environment is not a series of uncomplicated, individual relationships between a football club and its various stakeholder organisations.

Figure 6.2 Stakeholder Network Diagram of the Football Industry



To fully explore stakeholder networks within the football industry, the specific nature of the relationships between the various stakeholders would need to be evaluated. This was beyond the scope of our survey, but we did ask clubs and trusts to describe the strength of their relationships with the various stakeholder organisations. Clubs were also asked to describe the level of influence that each of the stakeholder organisations had over the way in which they were governed. The responses to these questions allow us to analyse some of the relationships within the stakeholder network.

2. Football clubs and the stakeholder network

The club survey results are based on the 91 clubs in the FA Premier League, Football League, Conference National and Conference North and South that responded to the survey. The questionnaire asked clubs to rank the strength of their relationship with a number of stakeholder groups in addition to the level of influence that the stakeholder organisations had over the governance of the club. The aim was to determine which organisations have the closest relationships with football clubs and which are able to exert most influence over the way the clubs are governed.

2.1 Strength of stakeholder relationships

Figure 6.3 reports the percentage of clubs describing their relationships with particular stakeholder organisations as either strong or very strong. As would be expected, the majority of clubs in the survey (72 per cent) indicated they have a strong relationship with the FA, while 88 per cent claimed to have a strong relationship with their respective League (Premier League, Football League or Football Conference). 88 per cent of club respondents also reported a strong relationship with club sponsors, demonstrating the importance of commercial partnerships. On the whole, the majority of club respondents reported having a strong relationship with a wide variety of stakeholder organisations. For instance, more than 60 per cent of clubs reported having strong relationships with organisations such as Football in the Community, supporters' groups (other than supporters' trusts), club shareholders, the media, local businesses and the local authority. 59 per cent of responding clubs with supporters' trusts described their relationship as strong or very strong.

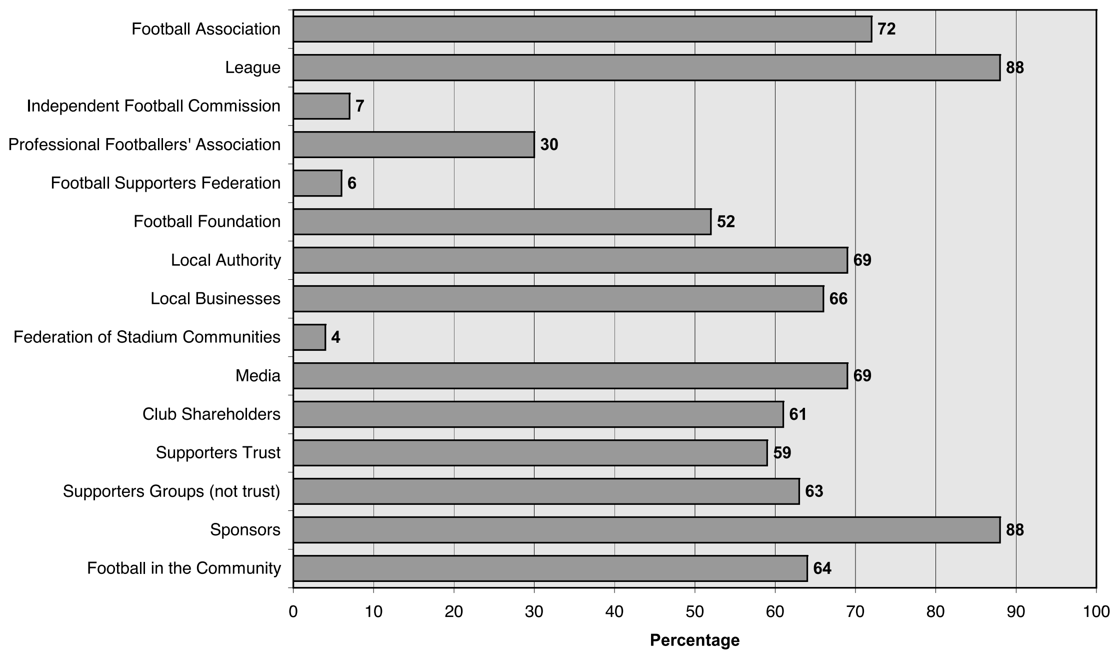
There are a number of stakeholder organisations with which only a minority of club respondents reported having a strong relationship. Only 30 per cent of respondents have a strong relationship with the Professional Footballers' Association (PFA), which reflects the fact that the union may have a closer relationship with the football authorities and its members rather than individual clubs. Figure 6.3 also reveals that only a small minority of club respondents reported having a strong relationship with the Federation of Stadium Communities (4%), the Football Supporters Federation (6%) and the Independent Football Commission (IFC) (7%), which implies these bodies have more important structural relationships with other organisations rather than with individual football clubs. For instance, the IFC has links to the FA, the Premier League and the Football League, while the FSC has a relationship with a small number of clubs that are relocating their stadia. These figures may also reflect how seriously the clubs view these organisations.

2.2 Level of influence over club governance

Figure 6.4 illustrates the percentage of club respondents that indicated which stakeholder groups have a strong or very strong influence over the way the club is governed. In comparison to the strength of stakeholder relationships, the number of clubs indicating that stakeholder organisations have an influence over decisions made in the football club is much lower.

The majority of responding clubs (68 per cent) indicated the FA has a strong influence over club governance, while 81 per cent reported that their

Figure 6.3 Club Stakeholder Relationships

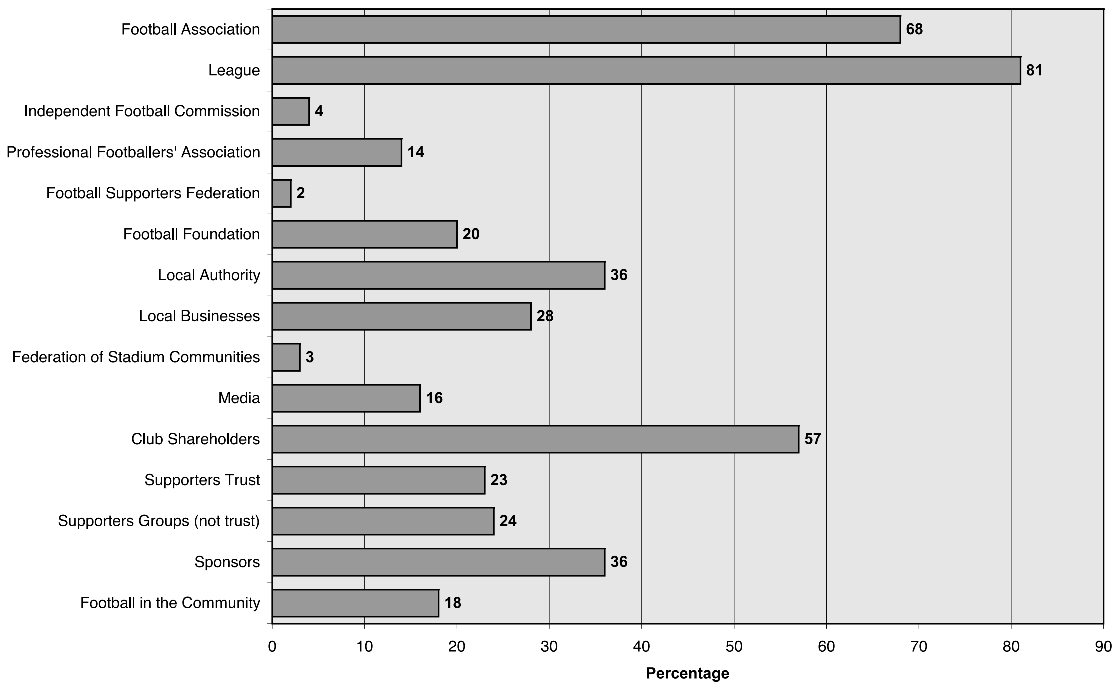


respective league has an influence over decision-making. This is to be expected given that football clubs have to adhere to the rules of both the FA and their league and many decisions on the governance of a club will have to take the rules into account. It is perhaps surprising, therefore, that the percentage of clubs indicating strong relationships with the FA and their league organisation was not higher. Other than the FA and the leagues, only club shareholders were reported as having a significant influence over governance, with 57 per cent of club respondents indicating that shareholders have a strong or very strong influence.

The survey results demonstrate that most stakeholder organisations do not have an influence over club governance. Only 23 per cent of the responding clubs with a supporters' trust reported that the trust has an influence over the way the club is governed. Given that an aim of the trust movement is to enable supporters to influence the governance of the clubs and encourage more democratic decision-making, this is a significant response, showing that the trust movement has a substantial way to go. This is demonstrated in Chapter 5, where only 36 per cent of club respondents from the Premier League, Football League and Conference believe that supporter involvement in the running and direction of their clubs is important, while just 17 per cent of club respondents indicated that it is important for supporters to own the club. Many football clubs are not realising the potential benefits that trust involvement can bring to the governance of the club. Furthermore, fewer than 20 per cent of club respondents reported that organisations including Football in the Community, the Football Supporters Federation, the Professional Footballers' Association and the Independent Football Commission have a strong influence on the governance of their club.

The survey also asked football clubs how difficult they found balancing the needs of various stakeholder organisations. Only 33 per cent of clubs in the FA Premier League and Football League, 23 per cent of clubs in the Conference National and 29 per cent of clubs in the Conference North and South stated that they found it difficult to balance the demands of the diverse range of stakeholder groups. There is a great deal of evidence, however, to suggest that football clubs are not particularly effective at balancing the needs of different stakeholders. There are well documented disputes between supporters and shareholders, for example in the case of Manchester United and Malcolm Glazer, and it has not always been possible for clubs to balance the needs of supporters and the community with broadcasters or sponsors, in terms of the changes to kick-off times for example. The

Figure 6.4 Influence on Club Governance



response to this question, therefore, may not be a straightforward account of the difficulty clubs have in balancing diverse needs. Instead, it may reflect the fact that clubs do not consider it a significant problem; it is the stakeholder organisations that often feel that the club is not taking due account of their needs. This is linked to the lack of influence that most stakeholder organisations have over the way in which football clubs are governed, as noted in Figure 6.4. This suggests that stakeholder organisations need to become more effective at building relationships and using the stakeholder network as a means to achieve the objective of improving governance standards at their football club.

3. Supporters' trusts and stakeholder networks

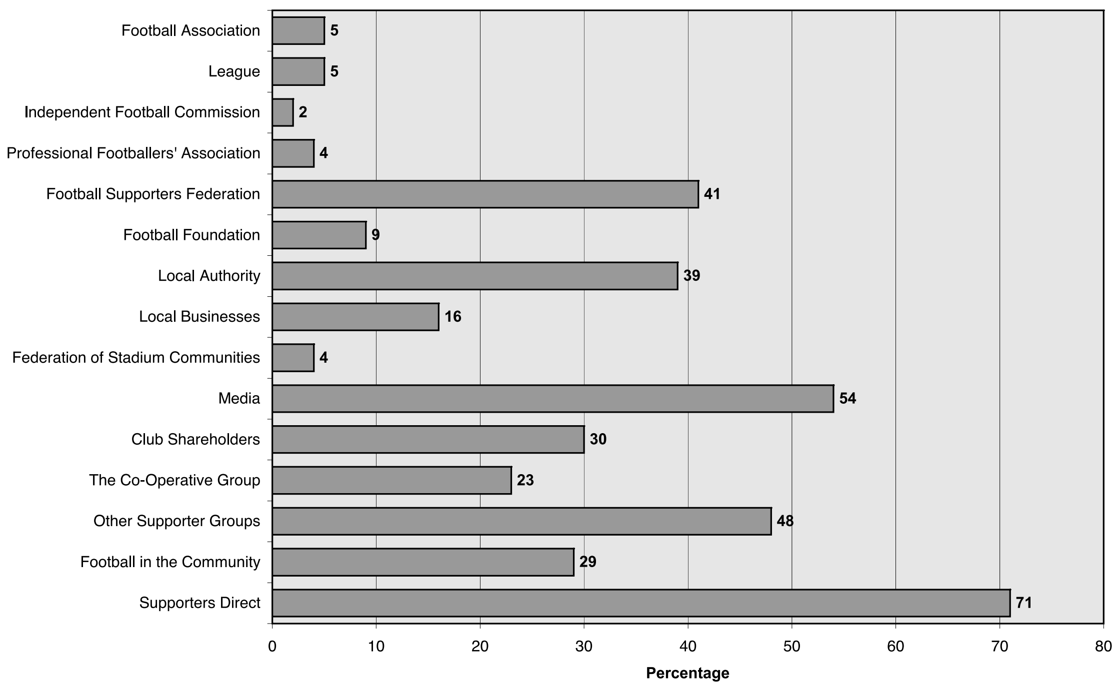
In addition to the club survey, the supporters' trust questionnaire also asked about the strength of the relationship between the trust and a number of stakeholder organisations. The results in this section are based on the 56 supporters' trusts that responded to the survey.

3.1 Strength of stakeholder relationships

Figure 6.5 illustrates the percentage of trusts that described their relationships with particular stakeholder organisations as either strong or very strong. The survey results revealed that the majority of supporters' trusts do not have strong relationships with stakeholder organisations. For instance, only 16 per cent report having a strong relationship with local businesses and just 29 per cent a strong relationship with the Football in the Community scheme at their club. Moreover, fewer than 20 per cent of trusts indicated that they have a strong relationship with the Federation of Stadium Communities, the Football Foundation, the Professional Footballers' Association, the Independent Football Commission, the Football Association and the League. This suggests that supporters' trusts are not utilising the available opportunities to develop partnerships to advance their objectives. This is probably related to a lack of time, resources and expertise for partnership development, rather than an unwillingness on the part of supporters' trusts to engage more closely with stakeholder organisations.

There are a small number of stakeholder organisations with which the majority of trusts do have a strong relationship. 71 per cent of trusts reported having a strong relationship with Supporters Direct, the body set up to facilitate the development of supporter trusts and enable supporters to gain greater representation in the governance structures of their club. In addition, 54 per cent of trusts reported having a strong relationship with

Figure 6.5 Trust Stakeholder Relationships



the media. Media coverage can be an important vehicle for publicising the role and objectives of a trust, and more trusts could take advantage of the opportunity to develop strong media relations.

4. Conclusion

The club survey results reveal that a number of stakeholder organisations maintain strong relationships with the majority of clubs. Despite this, it was found that most individual stakeholder organisations do not tend to have a strong influence over club governance, with only the FA, the leagues and club shareholders shown to have significant influence over the decision-making process. Despite widespread acceptance that the stakeholder model of corporate governance is appropriate for the football industry, the general approach by football clubs to the issue of governance is similar to the shareholder approach in that there is a reluctance to accept stakeholder involvement in the decision-making processes of the football club. As such, there is a failure to recognise the moral arguments for ownership echoed by club supporters.

The results for the trust survey suggest a potential to develop relationships with stakeholder organisations. There are many examples of trust success, with 13 trusts in ownership of their club in Britain, and the achievements made by the trust movement to date are encouraging given that it is still only 5 years old. However, developing relationships with other organisations in the stakeholder network and collectively pursuing the objective of improving football club governance could further advance the trust movement over the coming years.

Chapter 7

Conclusion

The importance of good corporate governance for all companies has increased since this annual *State of the Game* survey and report was launched five years ago. The Combined Code of Corporate Governance is taken more seriously today than then. And indeed, it has been recently revised, as discussed below. It has also been reinforced by a number of separate reviews, such as the Higgs Report which covered the size and functioning of boards of directors, and the role of independent directors, including the SID – the Senior Independent Director, other than the chair of the board, to whom shareholders can raise any issue that they may not wish to take up with the board chair.

The huge corporate failures represented by Enron and others are often cited to illustrate the need for proper regulation, including good corporate governance standards and practices. And all that is certainly true. But in a way the collapse of Enron also illustrated a rather different point, namely that 'good corporate governance' of the tick-box mentality is not enough. Not nearly enough. Because Enron had indeed ticked all the boxes. They were compliant with the relevant corporate governance codes. But meanwhile they were committing theft and deception on a grand scale.

Hence the importance of a transparent and accountable corporate *culture*, with all stakeholders fully involved, and with genuinely independent directors who are 'walking the talk'. This is all just as important for football clubs as for any other company. Indeed, perhaps even more important. Firstly, because we are talking about irreplaceable community assets that often play a hugely important role in the local community and in the lives of the club's supporters and others. In other sectors of the economy, one company ceasing to trade may be no great loss; indeed, it may be of benefit to all concerned, with their assets better deployed in other markets. But football clubs are unlike other companies in this respect.

Good governance, including the 'intangibles' of a transparent and accountable culture, are also particularly important for football clubs given the extremely opaque world in which they operate, often as a 'cash business', and with football agents and others often trying to actively avoid openness and accountability.

So the need for good governance is as great for football clubs as it is for any companies. But fortunately, so are the opportunities for achieving it. For some companies, involving their customers may be a difficult and expensive business. For football clubs, the customers are its supporters. And for other companies, the requirements to appoint independent directors, and to draw these from a wider pool of experience, is reported as being increasingly onerous. In supporters' trusts, football clubs have a ready pool of skilled, talented and dedicated individuals only too happy to support the club, including by serving on the club board.

1. The 2003 version of the Combined Code

In 2003, a revised version of the Combined Code on Corporate Governance was introduced, following the implementation of the Higgs Report. At the time of this year's *State of the Game* survey, many of the clubs would not yet have been required to comply with this new version, as this depended on the date of the company's financial year. So the analysis in this year's report has been in relation to the requirements of the previous version. Next year, however, we will be considering the performance of clubs against these new criteria. And the performance of FTSE 100 companies in general has not proved good, with less than half complying with the new code.

However, while compliance so far is low, a recent survey found that it was going in the right direction, with better dialogue between companies and investors.[1] This is pretty much in line with the results of this year's *State of the Game* survey as reported in the chapters above, with a slow but steady improvement in practice. It is to be hoped that with football clubs the dialogue will also continue to improve between clubs and their supporters. And that dialogue with investors will include the supporters' trust where they hold a stake; and where they do not, that the club will be supportive of moves to ensure that the trust does come to build a stake.

The football authorities – the leagues and the FA – could and should also do more to support good governance at clubs, and the further development of the supporters' trust movement. This would not only assist with securing good governance practices, but would also help secure the future for the game, by developing the supporter base, encouraging the next generation of supporters, and helping to strengthen links with the local community.

[1] Association of British Insurers (2005).

2. Redistribution requires good governance

The other important way in which the football authorities could secure a more sustainable future for the game would be to arrange for a less unequal distribution of revenues in the game. Over the past years and even decades, the trend has all been in the opposite direction, becoming more unequal. The cumulative effect of this has contributed to the current problems the game faces, with lack of competitive balance and an image that is alienating to many. Broadcasting revenues could be split evenly between teams, rather than as at present where the already more successful clubs receive the most. A greater proportion of such revenues should also feed down to the lower leagues and the grass roots of the game. And similarly match-day revenues and even other commercial revenues could be more evenly distributed than at present.

One objection to such policies is that many clubs are poorly run, and it would be pouring good money after bad. Such an argument might be harder to make in the current climate, when Chelsea appear to have unlimited riches that no amount of redistribution would effect, and Manchester United has gone from the world's most profitable club to the world's most indebted one, so is hardly in a position to lecture anyone else on prudent house-keeping. More seriously, though, the clubs in the Football League have actually made greater efforts than those in the Premier League to control wage costs and tackle other aspects of poor financial practice in football, such as the mysterious role of agents.

But while the argument may have less force now, it may still be made, and in any case the principle is correct and is one that should be accepted. Revenues should not be distributed to clubs that are poorly governed and lack financial probity. The implication of this is not to continue with an unequal distribution of revenues, but rather to insist on good governance practices. Thus two of the key policy needs for the future success of football – a more even distribution of revenues, and improved governance of clubs – are consistent and even mutually reinforcing. The leagues and FA should be insisting on both. And the supporters' trust movement will undoubtedly be useful allies in helping to achieve, maintain and develop the necessary governance processes at clubs.

3. For the mutual benefit of football

The positive role that supporters' trusts play in helping to deepen links between clubs and the supporters and local community has been demonstrated at a number of clubs across the leagues. And where the trusts have taken a controlling stake in a club, they have also shown prudent financial management and good governance practices. The trust model is beginning to realise its potential, as an appropriate ownership structure for clubs. That is, after all, what the clubs were originally intended to be – clubs, rather than business vehicles for profitable investment.

The move away from this concept of football clubs as clubs, towards floating them on the stock exchange, to become vehicles for personal financial speculation and gain, can now be seen to have been a quite specific episode in the game's history, beginning perhaps not surprisingly in the UK of the 1980s. Today's move, of supporters' trusts registered as Industrial & Provident Societies, taking ownership stakes in the clubs, and in some cases taking a controlling or even full ownership stake, is likewise occurring at a time when such developments are also occurring in other sectors of the economy, both in the UK and across Europe – a process that is being actively supported by the UK Government and the European Commission. Mutual, co-operative and employee ownership corporate forms are all on the increase in Britain and Europe, and in the UK the Government has introduced yet another corporate form, the Community Interest Company as an alternative to the PLC model.[2] So while these corporate forms do not account for more than a few thousand companies with a combined turnover in the tens of billions rather than the hundreds of billions, they are nevertheless tried and tested ways of running successful businesses, especially where those businesses have social purposes beyond just making money.

The supporters' trust movement is thus potentially far more than just another form of representation of, and lobbying by, supporters. It has the potential to become the natural ownership form for football clubs. This is true for the UK, Europe, and globally. There is certainly no resistance from UEFA or FIFA to such developments. Quite the contrary, as is made clear in the preface to this report and in the statements referred to in Chapter 1 from the FIFA President, both organisations recognise that there are problems of growing inequality within the game, and the ownership of clubs by rich individuals with no interest in the game other than financial gain or possibly other 'hidden agendas' is hardly the way forward. On the contrary,

[2] On the recent growth of mutual forms of business organisation, and their importance to the economy, see Blay & Michie (2004), and likewise for the employee-owned sector, see Postlethwaite *et al.* (2005).

there is a growing consensus nationally, across Europe and globally that what is needed is firstly, stricter regulation to curb the excesses and reverse the ballooning inequality; secondly, improved corporate governance of football clubs, with more attention paid to their stakeholders, including the supporters and local communities; and thirdly, the continued development of the supporters' trust model, which can not only assist in the development of good governance, but also has the potential to offer a more appropriate and sustainable ownership model for the sector.

As reported in Chapter 5 on the supporters' trusts above, many of them have a long way to go before they will be ready to fully realise this potential. The capacity of trusts needs to be developed, and this will take not just one-off training, but continuous training not only for the business skills needed but also to keep abreast of developments in corporate law, governance codes, and director responsibilities. So the challenge is great. But so are the rewards. And the need is urgent.

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Appendix 1

Terms of Reference for the Burns Review

This paper provides the scope and Terms of Reference of The FA Structural Review.

Scope of the Project
It is recommended that the scope of the project is limited to:

- Reviewing the constitutional structures, corporate governance and decision-making processes within The FA.

- Understanding the historical structural changes within The FA. In particular to evaluate the changes in structure of The FA Council and creation of The FA Board, National Game Board and Professional Game Board.

- Establishing clear responsibility and accountability for the decision-making processes within The FA.

- Making recommendations across the structure and representation of bodies to ensure The FA is 'an effective and inclusive body' for the 21st century.

Terms of Reference
Overview
To review and report on the constitutional structures, corporate governance and decision-making processes of The FA.

To consider the effectiveness and ability of the structures to deliver the objectives of The FA[1]:

a. To govern the game with consistency and integrity at all levels of football.

b. To promote and support high standards of financial management and corporate governance amongst all stakeholders.

c. To maximise income from our events and brands, and ensure the equitable distribution of such income at all levels of football.

d. To promote, lead and co-ordinate a strategic approach for the widest quality participation, and interest, at all levels of football.

e. To achieve success on the field through leading quality coaching, education and player development at all levels of football.

f. To achieve success at all levels for the national representative teams.

Specifically:

1. To report on the structures of The FA in comparison to 'best practice' of corporate governance in both sporting and non-sporting organisations, nationally and internationally, and set out and evaluate options for improvement.
2. To establish a clear map of the current decision-making processes of The FA detailing accountability and responsibility at all levels, in particular to clarify the respective roles and authority levels of:
   a. The FA Chairman
   b. The FA Vice-Chairmen
   c. The FA Council
   d. The FA Board
   e. The FA Committees
   f. The Chief Executive
   g. The Executive Management Team
   h. The FA staff
3. To identify issues and uncertainty within the decision-making process and set out options for improvement.
4. To review and report on the membership and representation across the key bodies within The FA. To set out and evaluate possible adjustments to the membership of these bodies.
5. To review and report on the current processes in place to appoint members to the bodies within The FA. To recommend any changes to the processes.
6. To consult with a broad range of stakeholders across the game.
7. To produce a report to the Board summarising all findings, the options available and a proposed way forward. These options will be in the interests of the game as a whole, and in line with the objectives of the FA[1].

[1] These objectives were agreed at the 3rd November 2004 FA Board meeting to act as a framework for the Structural Review.

Appendix 2

UEFA Declaration on the local training of players

1. The training and development of young players is of crucial importance to the future of football. Every football club in every national football association should play a part in this process.

2. Football clubs have an important social and educational role in their local communities, in their regions, and in their countries. In this context, the nurturing of local talent is not only beneficial for football as a sport. It is beneficial for society as a whole.

3. UEFA recognised that finance plays an important part in football today. But football should not be a mere financial contest. It should above all be a sporting contest. This sporting element means that every club must accept some responsibility for training, and not rely solely on acquiring those players who were trained by others.

4. Training should be encouraged in every national member association of UEFA. This will, in turn, help to provide a pool of playing talent in every European country and can also help to increase the quality of, and competition between, national teams.

5. For all these reasons, on 2 February 2005, the UEFA Executive Committee adopted a rule which will, starting from the season 2006/07, require clubs playing in UEFA club competitions to have a minimum number of local trained players within the overall squad limits.

6. We, the presidents of the 52 member associations of UEFA, take the opportunity of this Congress to endorse this new rule, and the sporting principles which underlie it.

Tallinn, 21st April 2005

Appendix 3

Survey of clubs and supporters' trusts

The analysis in this report is based on the following data and information sources.

1. The results from our questionnaire survey of all clubs in the FA Premier League and Football League. This includes the clubs that were relegated to the Football Conference in 2005. The survey was conducted between May and September 2005. Of the 92 clubs surveyed 50 responded, a response rate of over 54 per cent, which is very high for an in-depth postal survey of this kind.

2. The results from our questionnaire survey of all clubs in the Football Conference. This includes the clubs that were promoted to the Football League in 2004 and the clubs that were relegated from the Conference North and Conference South. Of the 66 clubs surveyed, 41 responded, a response rate of over 62 per cent, which is extremely high for an in-depth postal survey of this kind.

3. The results from our questionnaire survey of supporters' trusts in England and Wales. Of the 90 trusts surveyed, 56 responded, giving a response rate of over 62 per cent, which is extremely high for an in-depth postal survey of this kind.

4. Analysis of the corporate governance statements and Annual Reports of clubs listed on the London Stock Exchange (LSE), AIM and OFEX.

5. The results from PIRC's analysis of the corporate governance statements of all LSE listed companies published in their November 2004 Annual Review of Corporate Governance.

6. Findings from the Association of British Insurers' Institutional Voting Investment Service's 2005 analysis of the corporate governance statements of FTSE 100 Companies.

7. The collation of financial accounts and performance contained in the latest Deloitte and Touche *Annual Review of Football Finance*.

Our dual surveys of clubs and supporters' trusts provide comparative data, allowing analysis and insights from both perspectives.

This is our fifth annual review of the corporate governance of professional football clubs based on our dual survey methodology. We now have a longitudinal data set covering football clubs and supporters' trusts for the past five years; this is the second year that the survey has included clubs in the Football Conference. In this report we have provided, where appropriate, historical comparisons to identify trends in corporate governance in professional football.

Name and Subject index

Notes

Notes

Other Publications in the Series

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Fresh Players, New Tactics: Lessons from the Northampton Town Supporters' Trust -
Phil Frampton, Jonathan Michie and Andy Walsh
This paper provides an in-depth analysis of the supporters' trust at Northampton Town Football Club. It investigates the challenges facing an established supporters' trust and what can be done to facilitate the growth of the trust, increase its influence with the club and strengthen its ties with the local community.

The State of the Game: The Corporate Governance of Football Clubs – 2001 to 2005[1] - FGRC
Five annual *State of the Game* reports from 2001-2005 provide a comprehensive overview of the corporate governance of the football industry based on survey returns from clubs and stakeholders, interviews with key players and analysis of Companies House data. The reports focus on the role of the authorities in regulating the industry; track the developments in corporate governance procedures at professional football clubs; and analyse the emergence and growth of the supporters' trusts within football.

Model Rules for a Football Community Mutual - Kevin Jaquiss
These Model Rules were produced as a collaborative effort between Cobbetts, Birkbeck and the Co-operative Union, along with the pioneering groups of supporters who first set up the new wave of supporters trusts. The Industrial & Provident Society Model for a football community mutual has now been used many times by groups of supporters advised by Supporters Direct.

A 'Fit and Proper' Person Test for Football? Protecting and Regulating Clubs - Matthew Holt
This research paper considers the regulation of football clubs' owners and major shareholders. It looks at the possibility of introducing a 'fit and proper' person test as recommended by the Football Task Force and the role of the Football Association in promoting best practice and improving corporate governance at clubs.

Building Sustainable Supporters' Trusts in the West Midlands: A Training Manual[2] - FGRC and The Co-operative College
The Training Manual is a set of teaching materials designed to train members of supporters' trusts. The materials incorporated within the Training Manual can be used by trusts as text-based resources or by facilitators to guide a series of interactive workshops. A CD ROM accompanies the pack that enables users to download and print out the materials, exercises and handouts for further use.

The Ownership Structure of Nationwide League Football Clubs 2002-03 - Stephen Hope
Using detail from the last annual returns and accounts from Companies House, this research paper focuses on the ownership of football clubs in the Football League, and includes a 'club by club' summary of their legal structure and shareholding concentrations.

Professional Footballers' Association: A Case Study of Trade Union Growth - Geoff Walters
In the context of a declining trade union movement, this research paper charts the remarkable growth and development of the Professional Footballers' Association throughout the 1980s and 90s.

Competitive Balance in Football: Trends and Effects - Jonathan Michie and Christine Oughton
This paper provides analysis of trends in competitive balance over the last fifty years and looks at their determinants and effects. In the light of this analysis the paper makes a number of recommendations for regulatory reform.

Football and Social Inclusion: Evaluating Social Policy - Richard Tacon
This paper discusses the potential benefits of evaluating football and social inclusion policy. It also aims to develop the methodology of *realist evaluation* by providing a series of guidelines for the evaluation of individual football-based social inclusion projects.

Does the Best Team Win? An Analysis of Team Performances at EURO 2004 -
Fiona Carmichael and Dennis Thomas
This paper examines the performance of the winning team in the EURO 2004 tournament, relative to its rivals. Match statistics are analysed within an aggregated production function model in order to generate predicted tournament rankings and to examine the relative efficiency of teams.

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[1] Copies of State of the Game reports 2001, 2002, 2003 and 2004 are available for £5; copies of the 2005 report are available for £25, with a discounted rate of £5 for supporters' trusts, club officials and students.
[2] The 190 page Training Manual (including CD ROM) is available in hard copy for £50, with a discounted rate of £20 for supporters' trusts, club officials and students.

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