



Improving Governance: Top-Down and Bottom-up Strategies

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Governance in Sport: The Good the Bad & the Ugly
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Corporate Governance and Football

- Enron and Tyco and ... Chesterfield Football Club?
- Fraud – Chairman of Chesterfield received 4 year prison sentence
- Supporters saved the club via formation of a Supporters' Trust
- Is this a typical case, is there a governance crisis in football?

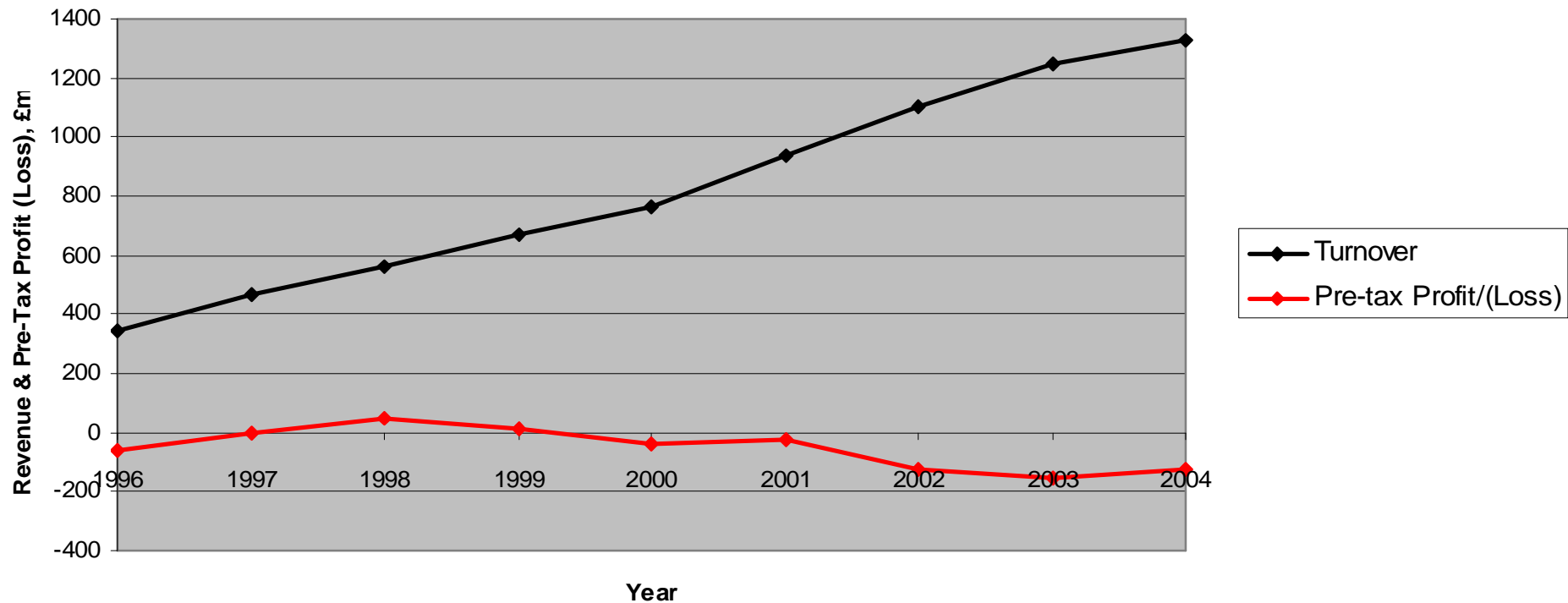
Football Governance: A Success Story?

- The English Premier League ‘success’ story
 - PLC companies listed on the Stock Exchange
 - Full stadia, high attendances
 - Rising TV money
 - Celebrity players, increased popularity
-But a large number of clubs have run into financial difficulty and bubble may be bursting

Paradox of rising revenue and declining profits



Premier League Football Clubs 1996-2004
Revenue and Pre-Tax Profit (Loss)



The Good, the Bad and the Ugly

Good
Governance

Honest
Incompetence

FRAUD

Football Club Governance: Good, Bad or Ugly?

- Many of the corporate governance problems of clubs are due to honest incompetence, rather than fraud
- But that's bad enough and there have been serious cases of fraud
- Also serious safety violations
- And cases of owners cashing in (via the stock market flotation of clubs)
- Growing commercialism has led to profiteering from sport and social exclusion

It was not always like this....

- Clubs used to be clubs, but in the first wave of commercialisation towards end of 19th Century they changed into companies and wanted to pay dividends: profit moved up the agenda
- To preserve the sporting and cultural aspects of football and prevent profiteering the FA introduced Rule 34
- Rule 34 restricted payment of dividends to 5% of the face value of shares and prevented payment of Directors
- Dividend limit increased to 15% in 1981

1980s: Second Wave of Commercialisation and Stock Market Flotations (TV Money)

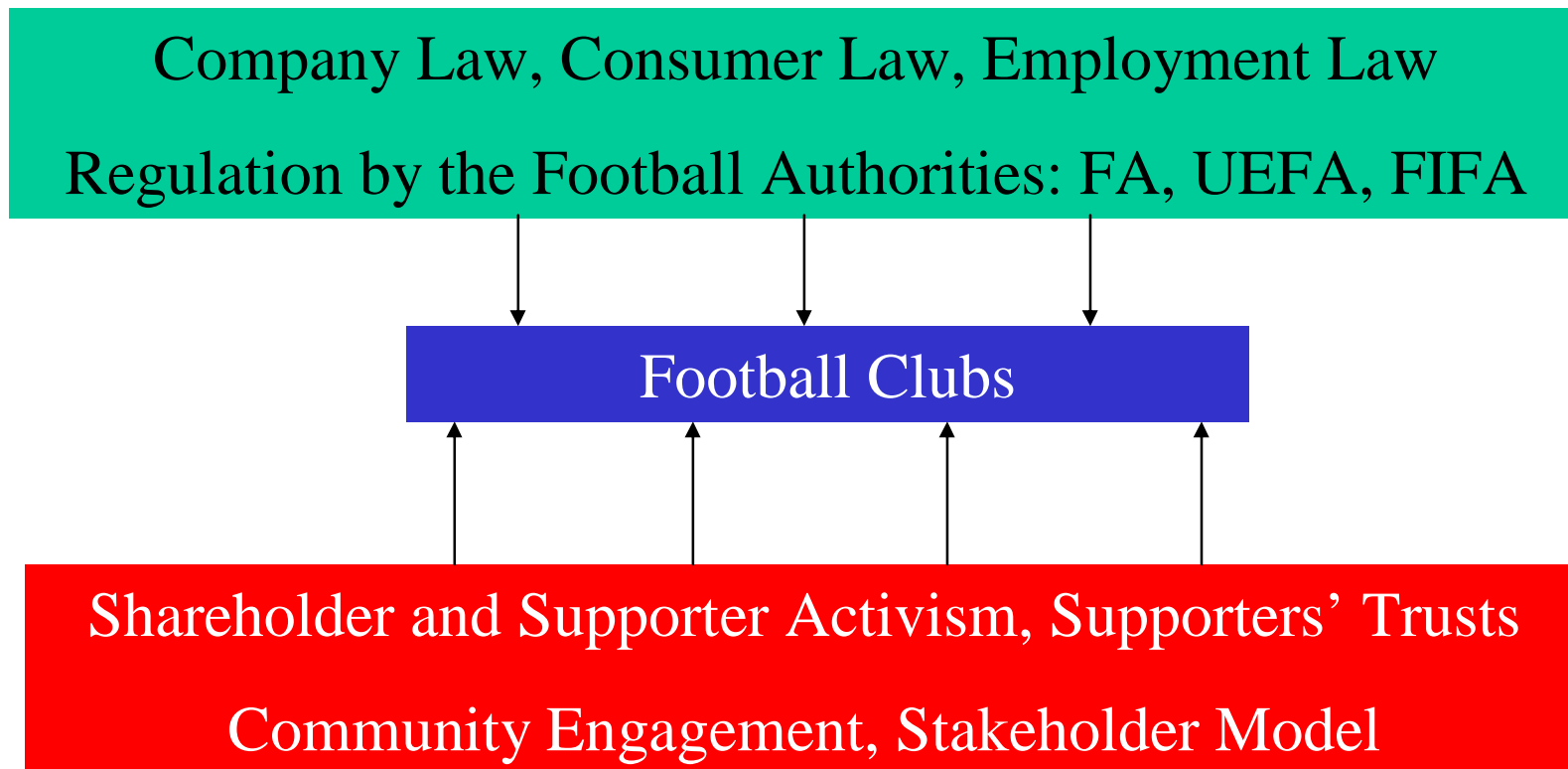


- Stock market flotation of Tottenham Hotspur (1983)
- Holding company formed
- Profits could be transferred to the holding company and distributed without limit
- The aim was to generate funds via the stock market and distribute profits outside the game
- The FA Rule 34 fell by the wayside

Problems with unfettered profit maximisation and share ownership

- Football is not like any other business – clubs have *sporting*, *charitable* and commercial objectives
- Clubs have local monopoly power over ticket prices
- Clubs enjoy unrivalled supporter (brand) loyalty; supporters feel exploited, some are excluded, often they raised funds for clubs but received no shares in return for their investment
- Interests of supporter shareholders and financial investors diverge
- Supporters and supporter shareholders don't have exit (therefore, they need voice)..... How?

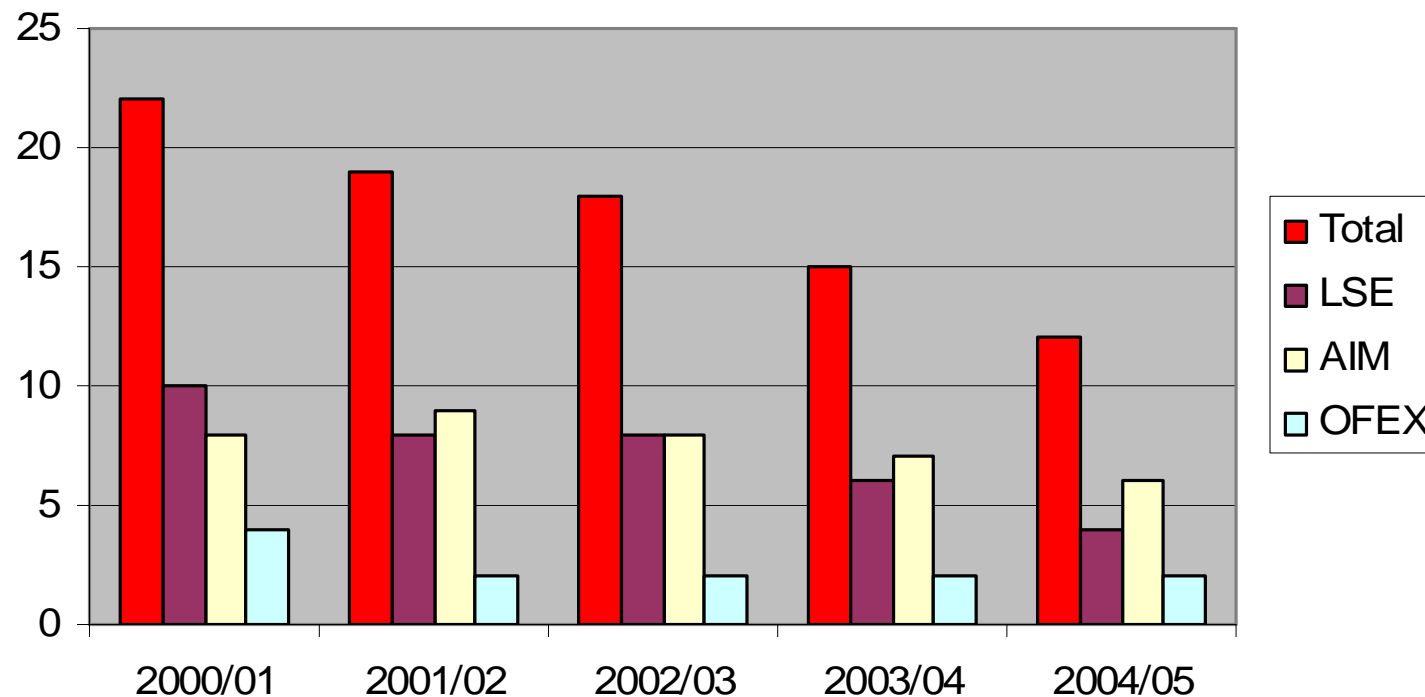
Top-Down and Bottom-Up Governance



Supporters to the Rescue

- Supporters often bail clubs out of financial crisis
- Fall of the stock market model – clubs are de-listing

The Demise of the Stock Market Model for Clubs



Supporters' Trusts

- Supporters no longer so willing to put money in to save their club and gain nothing in return
- If supporters don't have exit they need voice
- Supporters' Trusts – the Trust model gives supporters voice, improves corporate governance and corporate social responsibility

How Does it Work?

Football Clubs and The Trust Model I

Football Club

Dominant Legal Form in UK:

Company (private or PLC)

Objectives:

1. Sporting
2. Commercial (revenue, profit, including distributed profit)
3. Social

Football Clubs and The Trust Model II

Football Club

Legal Form: Company
(private or PLC)

Objectives:

1. Sporting
2. Commercial (revenue, **profit**, including **distributed** profit)
3. Social

Supporters' Trust

Legal Form: Trust (IPS)

Objectives:

1. Build links between club, supporters and community
2. Commercial (fundraise for Trust and Club)
3. Social – youth involvement, anti-racism, social inclusion

Football Clubs and The Trust Model III



Football Club

**Legal Form: Company
(private or PLC)**

Objectives:

1. Sporting
2. Commercial (revenue, profit, including distributed profit)
3. Social

Supporters' Trust

Legal Form: Trust (IPS)

Objectives:

1. Build links between club, supporters and community
2. Commercial (fundraise for Trust and Club)
3. Social – youth involvement, anti-racism, social inclusion

Trusts aim to make clubs more socially responsible and improve governance by dialogue, share ownership, representation on the board and control (4 clubs trust owned/controlled)

Improved Governance

- Supporters' Trusts aim to improve governance by making clubs accountable and more transparent
- Ultimately the objective is for Supporters' Trusts to own the club, in order to:
 - Prioritise supporters as stakeholders in a democratic model
 - Restore the prioritisation of sporting over commercial objectives
- Clubs can be run in a professional/commercial way, but revenue generated should be reinvested in the club and community

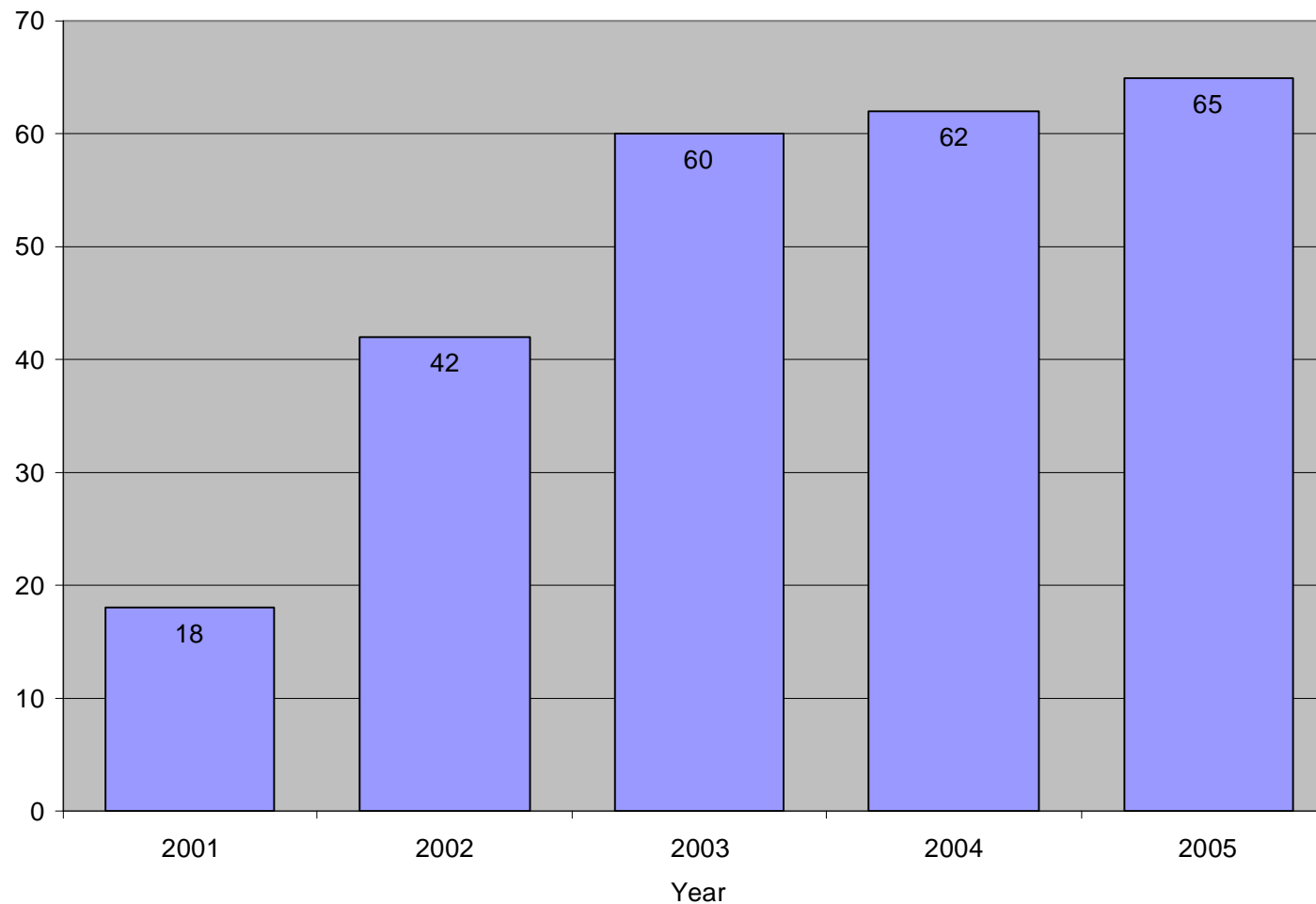
Win-Win?

- Supporters' Trusts aim to improve governance and make clubs prioritise their sporting, social and charitable objectives
- They can bring new support from excluded groups, youth, women, minorities
- At the same time Trusts aim to generate funds for the club
- And build links with local government
- Their Trust status means that they are able to access funding streams that clubs (as for-profit companies) cannot reach

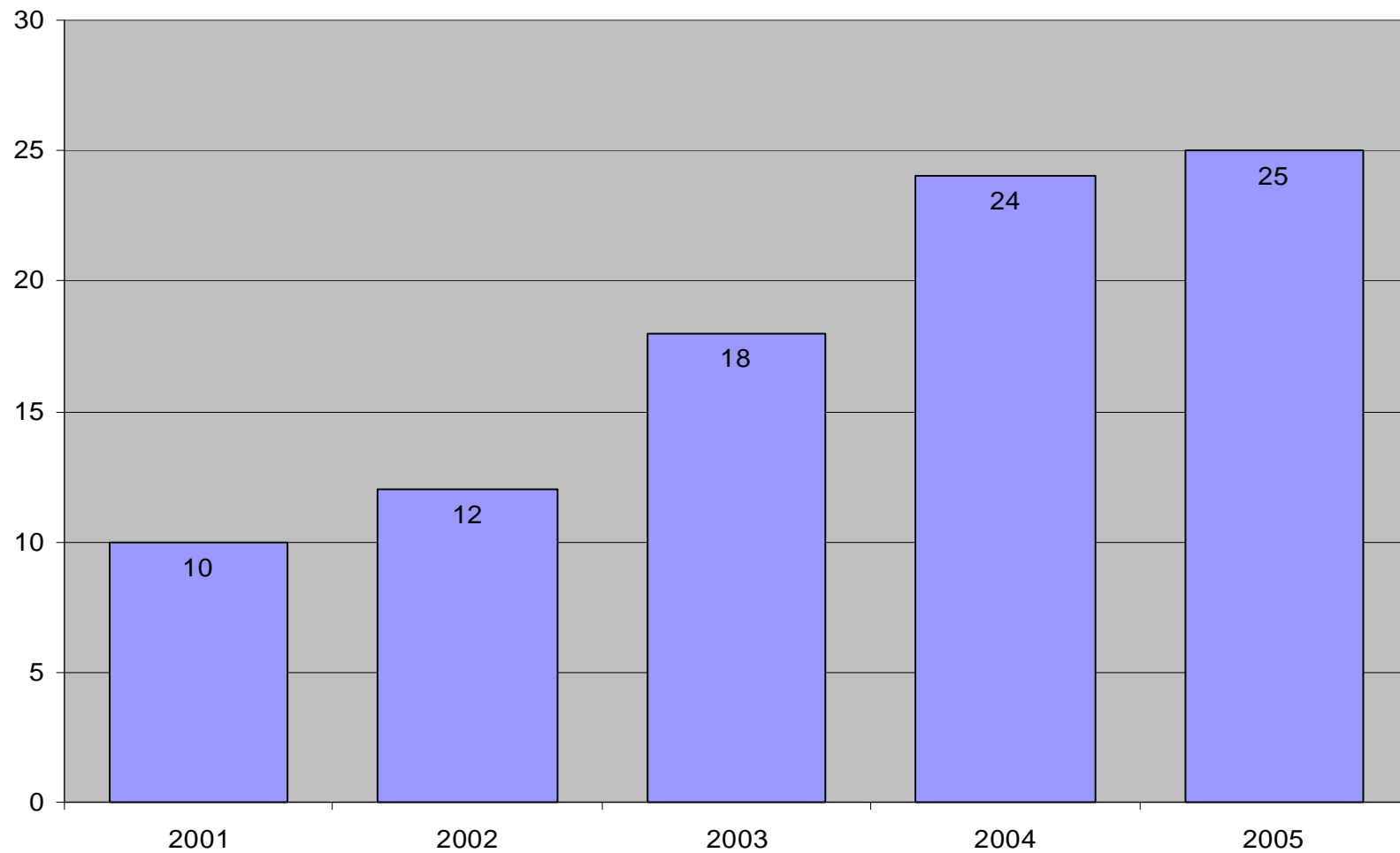
The State of the Game

- The FGRC, Birkbeck, University of London produces an annual *State of the Game* report on the corporate governance of clubs and Supporters Trusts – 5 years of data
- Corporate governance of clubs has been improving but there are areas of weakness and on the whole football clubs do not match standards observed in other sectors

Number of Supporters' Trusts at English Premier League and Football League Clubs



Number of Supporters' Trusts with Board Representation



Analysis and Results from *State of the Game*

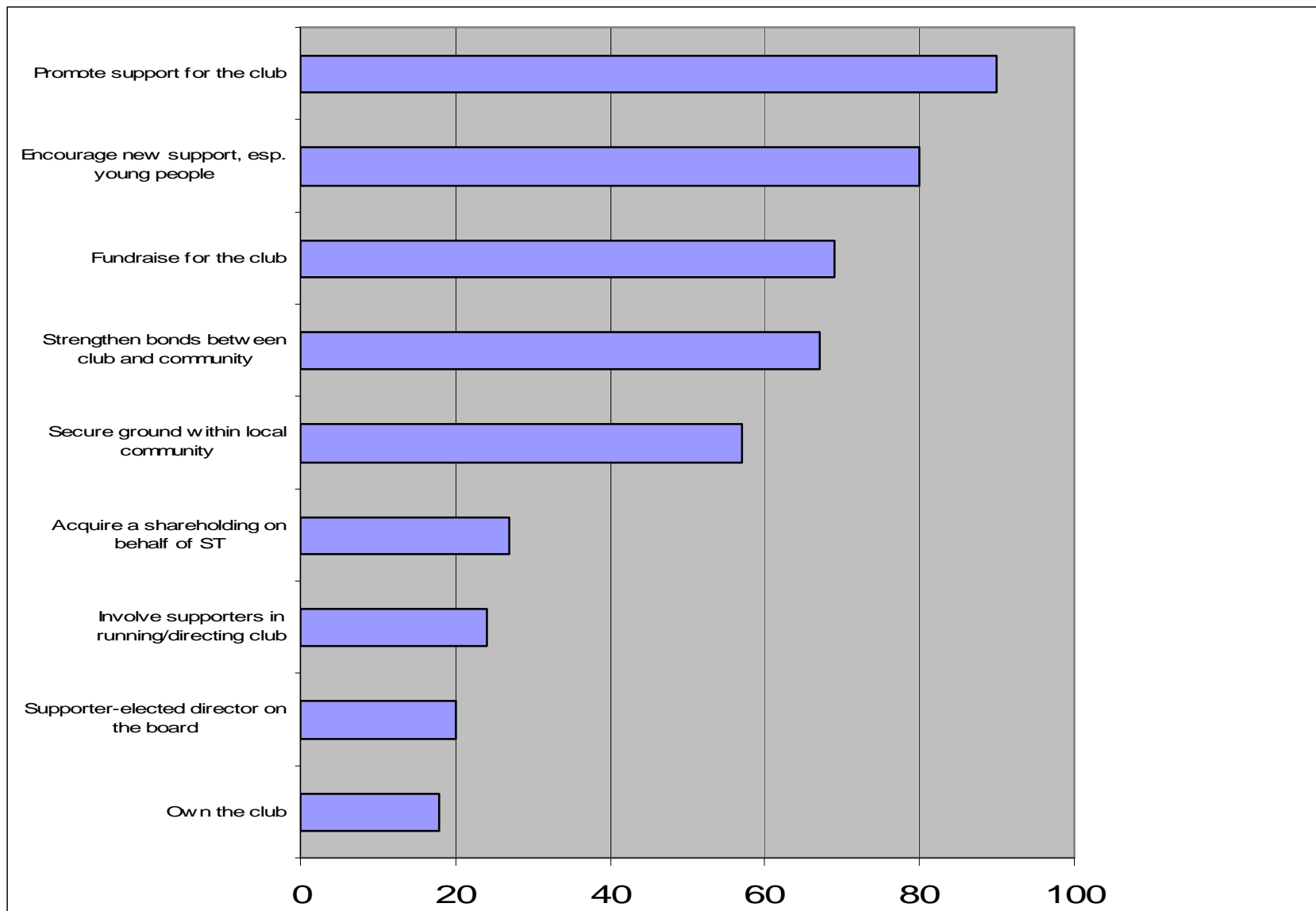
- There are Supporters' Trusts (ST) at 65 of the 92 PL and FL clubs
- 83% of clubs stated they were in regular contact with their ST
- 56% of clubs stated the link between club and ST was strong or very strong
- 53% of clubs stated they had received financial support from a ST (only 30% of STs received shares in return)
- 23% said the ST had a strong or very strong influence over governance at the club

Mechanisms for growth

- Share save schemes
- New financial instruments for Trusts
- Working in partnership with clubs and government to help deliver social policy objectives
 - Tackling illiteracy
 - Promoting Health, Fitness and Participation
 - Tackling Racism
 - Tackling Social Exclusion
- Training for Trust Officials and members

Club Attitudes to ST Aims

% of clubs stating the following were important/very important



Combining Top-Down and Bottom Up Strategies

- There is evidence that the bottom-up ST movement can improve governance
- There is also considerable potential for further development and benefits but this depends on:
 - Change in club attitudes
 - Trusts gearing-up, and top-down support
- There is still a need for strong top-down regulation: the UK government supports the Supporters' Trust Movement, the Football Authorities could do more
- Model can be rolled out across other sports