

# **Financial Regulation of Professional Football In Ghana**

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## DECLARATION

I declare that this thesis is my own research work carried out in the United Kingdom under the supervision of Dr. Stephen Morrow and Prof. Leigh Robinson of the University of Stirling, Scotland. This thesis has not been submitted in another institution for the award of another degree. References cited in this work have been fully acknowledged.

KWAME AMOAH BAAH-NUAKOH

## **Abstract**

Football clubs have multiple stakeholders sometimes with different and conflicting objectives. If a club concentrates solely on achieving sporting success at the expense of its financial objectives, it risks jeopardizing its long-term stability, which may affect the sporting integrity of the league as a whole. The behaviour of one club potentially has externality implications for other stakeholders which cannot always be internalised. There is therefore the need for regulation of the pre-emptive type to avert such negative consequences for clubs.

FIFA has requested all member associations to implement club licensing to improve upon professionalism in management and to ensure long-term stability of club football. This thesis picks up on this theme to review the financial regulatory system in Ghana, obtain lessons from other jurisdictions and develop an incentive-based context-specific Football Financial Clearinghouse framework that is applicable in Ghana.

The thesis employs a mixed-method research approach to evaluate the financial disclosure, position and performance of professional football clubs in Ghana, utilising critical reviews, interviews, focus group discussions and questionnaires to answer specific research questions. The empirical analysis in this thesis shows that financial licensing and monitoring needs to be complemented by the provision of incentives and support services to clubs to achieve optimal regulatory compliance. The key incentive in the specific case of Ghana is to ensure regulated access to credit.

This thesis makes four significant contributions to knowledge by showing that: Ghanaian football clubs are in a difficult financial situation; there is an appetite for change amongst Ghanaian football's stakeholders for a new financial regulatory framework; the existing financial regulatory frameworks, especially in Europe, are not applicable in the Ghanaian context as they were made for a different jurisdiction; and that the FFC framework would be an appropriate context-specific framework to deal with the financial regulation of Ghanaian football clubs.

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# CHAPTER I

## INTRODUCTION

In many ways, football clubs are quite different from conventional firms in many other areas of economic activity. As such they cannot be understood simply using ordinary models of firm organization (Morrow, 1999). Football clubs operate in a complex industry, with multiple stakeholders, each with different objectives and interests which sometimes run counter to each other (Walters, 2007). These objectives could include sporting success, match attendance, league health and profits. To the extent that most of these objectives rely on clubs achieving on-field success for their attainment, there is a tendency for club administrators to focus on on-field success, sometimes to the exclusion of very important commercial objectives.

Where football clubs give insufficient attention to the financial constraints they face, there is increased risk that they will behave in a more financially irresponsible way. This can include instances of over-investment in player talent and excessive financial risk-taking. This can lead to clubs failing during the course of a football season and as a result distorting the competition, generating negative publicity and putting pressure on the league to bail-out insolvent clubs (Budzinski, 2012). Irresponsible behaviour by one club can result in negative contagion effects for other clubs too, and for the sporting integrity of the league as a whole. In such a distinct area of activity as football, financial regulation might be seen as an appropriate way of pre-empting the occurrence of such behaviour, behaviour which otherwise might result in negative externalities for other stakeholders (Drut and Raballand, 2012).

Considerable social benefits, arising out of the financial investments by football clubs, may exist that without external support would be produced at less than socially optimal levels. This might be particularly significant in a developing economy context and may include employment creation, national cohesion and promotion of positive skills in the youth (Sanford et al., 2008). Thus, financial regulation might also be required to provide the framework for internalising the consequences of the production decisions of individual football clubs. In this regard, the introduction of regulation of the pre-emptive form does not require the existence of financial crises as a necessary condition. Thus professional football in Ghana does not have to be in financial crises before an appropriate financial regulatory framework is developed for the long-term financial stability of the industry.

The context within which research is conducted is also important in determining the methodology adopted and how the research findings are interpreted. The next section discusses the country Ghana, Ghanaian football and football business environment.

## 1.1 THE RESEARCH CONTEXT

### 1.1.1 The Country, the Economy and its Politics

Ghana is located on the west coast of sub-Saharan African with a total land area of 238,537 square kilometres. Figure 1.1 shows a map of Ghana and its 10 administrative regions.

Figure 1.1: An Administrative Map of Ghana



It has an estimated total population of 25.37 million in 2012 according to the World Bank, with an annual change of 2.2%. Gross Domestic product is estimated at US\$40.71 billion in 2012, with GDP growing by 8% and 14.4% in 2010 and 2011 respectively (World Bank, 2012). Table 1.1 shows Gross Domestic Product at market prices for the period 2007-2011, as issued by the Ghana Statistical Service.

Table 1.1  
Gross Domestic Product (GDP) at Current Market Prices by Economic Activity

		Ghc Million				
		2007	2008	2009	2010*	2011**
<b>1.</b>	<b>AGRICULTURE</b>	<b>6,320</b>	<b>8,875</b>	<b>11,343</b>	<b>12,910</b>	<b>14,155</b>
1.01	Crops	4,409	6,435	8,425	9,422	10,650
	o.w. Cocoa	581	706	874	1,392	1,996
1.02	Livestock	501	606	729	873	1,004
1.03	Forestry and Logging	910	1,072	1,314	1,614	1,549
1.04	Fishing	500	762	874	1,001	952
<b>2.</b>	<b>INDUSTRY</b>	<b>4,513</b>	<b>5,855</b>	<b>6,776</b>	<b>8,294</b>	<b>14,308</b>
2.01	Mining and Quarrying	602	693	740	1,013	4,690
	o.w. Crude Oil	0	0	0	178	3,746
2.02	Manufacturing	1,990	2,277	2,478	2,941	3,711
2.03	Electricity	130	155	167	266	325
2.04	Water and Sewerage	227	229	246	368	467
2.05	Construction	1,564	2,500	3,144	3,706	5,114
<b>3.</b>	<b>SERVICES</b>	<b>10,922</b>	<b>13,935</b>	<b>17,543</b>	<b>22,184</b>	<b>26,837</b>
3.01	Trade; Repair Of Vehicles, Household Goods	1,335	1,710	2,109	2,701	3,470
3.02	Hotels and Restaurants	1,210	1,716	2,196	2,593	3,007
3.03	Transport and Storage	2,849	3,262	3,758	4,578	5,581
3.04	Information and communication	511	622	657	831	989
3.05	Financial Intermediation	739	1,089	1,547	2,240	2,466
3.06	Business, real estate and other service activities	1,018	1,185	1,462	1,945	2,591
3.07	Public Administration & Defence; Social Security	1,289	1,799	2,479	3,024	3,540
3.08	Education	856	1,132	1,506	1,877	2,307
3.09	Health And Social Work	308	381	513	674	728
3.10	Other Community, Social & Personal Service Activities	807	1,039	1,318	1,722	2,159
<b>4.</b>	<b>GROSS DOMESTIC PRODUCT at basic prices</b>	<b>21,755</b>	<b>28,664</b>	<b>35,662</b>	<b>43,388</b>	<b>55,300</b>
	Net indirect Taxes	1,400	1,514	936	2,654	3,964
<b>5.</b>	<b>GROSS DOMESTIC PRODUCT in purchasers' value</b>	<b>23,154</b>	<b>30,179</b>	<b>36,598</b>	<b>46,042</b>	<b>59,264</b>

\* 2010 estimates finalized on April 11, 2012

\*\* 2011 estimates revised on April 11, 2012

The Services sector accounted for 48.5% of GDP in 2011, with Industry and Agriculture sectors contributing 25.9% and 25.6% respectively. The Services sector is also the fastest growing sector of the economy. Ghana is considered a lower middle income country in 2012. However, almost 30% of its population still lived below the poverty line in 2006 (World Bank, 2013).

Females account for 51% of the population whilst 71.2% are considered as Christians, with a Muslim minority of 17.6%. The largest out of the 75 different ethnic groups is the Akan who have a 47.5% share in the population. The official language is English, and 78.3% of males and 65.3% of females are considered literate.

The country returned to constitutional democracy in 1992 after 11 years of military rule under Jerry Rawlings. Since then three other presidents have been elected in six different Presidential elections. The two main political parties are the ruling National Democratic Congress (NDC) and the New Patriotic Party (NPP) which between them have shared the presidency since 1992. The country runs an executive presidency political system with one legislative chamber made up of 230 Members of Parliament.

### **1.1.2 Politics and Football in Ghana**

The direct intervention of the state in the running of the national soccer teams has been a legacy of the perceived role of football in the social life of the Ghanaian that continues to the present day. Football was seen as a political instrument and as a tool for nation-building during the immediate post-independence era (Bediako, 2012; Broere and van der Drift, 1997). The first President of the Republic provided financial support for the national team to win

international laurels as part of an effort to enhance his political image on the continent. For instance, in pursuit of the President's socialist ideals, the National Director of Sports in 1960 ordered that the top two players from each of the league clubs join a model club called Real Republikans, referred to as the 'Presidents Own Club', to compete in the league, initially on a non-scoring basis. They were also to represent the country in the first CAF Inter clubs competition so as to guarantee a greater chance of success. The club was disbanded immediately after the President was overthrown in a military coup in February, 1966 (Bediako, 1995, 2012; Fridy and Brobbey, 2009).

The industrialization efforts of subsequent governments between 1966 and 1978 also led to the formation of 'factory clubs', owned and financed by state-owned industrial firms that took part in the league, which also provided employment for the players of the clubs. These well-resourced clubs, which were most often led by military officers, provided sporting challenges to the traditional clubs (Bediako, 2012). Examples include Akotex FC (Akosombo Textiles Ltd), Ghanacan (Nsawam Cannery Ltd), Juantex (Juapong Textiles Ltd), GIHOC (Ghana Industrial Holding Company Ltd), and Complex Stars (Ghana Food Complex Ltd). All of these clubs collapsed as financing ceased as a result of the privatization of state –enterprises which begun in the early 1980s as part of the country's Structural Adjustment Programs (SAP) initiated under the auspices of the World Bank and the International Monetary Fund (IMF).

Subsequent political leaders have also utilised their association with football clubs to pursue their political ambitions (Fridy and Brobbey, 2009). President Kuffour, who ruled the country from 2001 until 2009 was the former Board Chairman of the country's biggest football club, Asante Kotoko. His successor

as President, Prof Atta-Mills was also a former Board Chairman of Hearts of Oak, Kotoko's main rivals. President Kuffour's Vice-President was a former Board Chairman of Real Tamale United, the biggest club in the northern part of the country, whilst the current President, John Mahama is also closely associated with the same club.

At the level of club football, despite the fact that supporters of the two most successful clubs in terms of sporting achievements, Hearts and Kotoko cut across the two big political parties, NDC and NPP, Fridy and Brobbey (2009) argue that the NDC's successes in general elections are negatively related to the successes of Kotoko which is based in Kumasi, the capital of the Ashanti Region, the stronghold of the opposition NPP. Between 1993 and 2001 when the NDC dominated Ghanaian politics, Kotoko failed to win a single league title, with Hearts of Oak winning six titles. This series of events resulted in speculation that the ruling NDC party, which was responsible for appointing the management of the FA, was in some way influencing the outcome of the league for political reasons (Bediako, 2012).

Until 2006 when the current statutes of the Ghana Football Association were promulgated, the ruling political party had the power to influence football politics as Government nominated two people to serve on the 5-member Management Board of the FA, one of whom was to be the Chairman. The new structure, which was introduced on the directives of FIFA, was in part to ensure that Government interference in the operations of the FA was kept to the minimum (GFA, 2006), as FIFA felt that changes in the FA administration resulting directly from changes in Government, created instability in the administration of the game in the country.

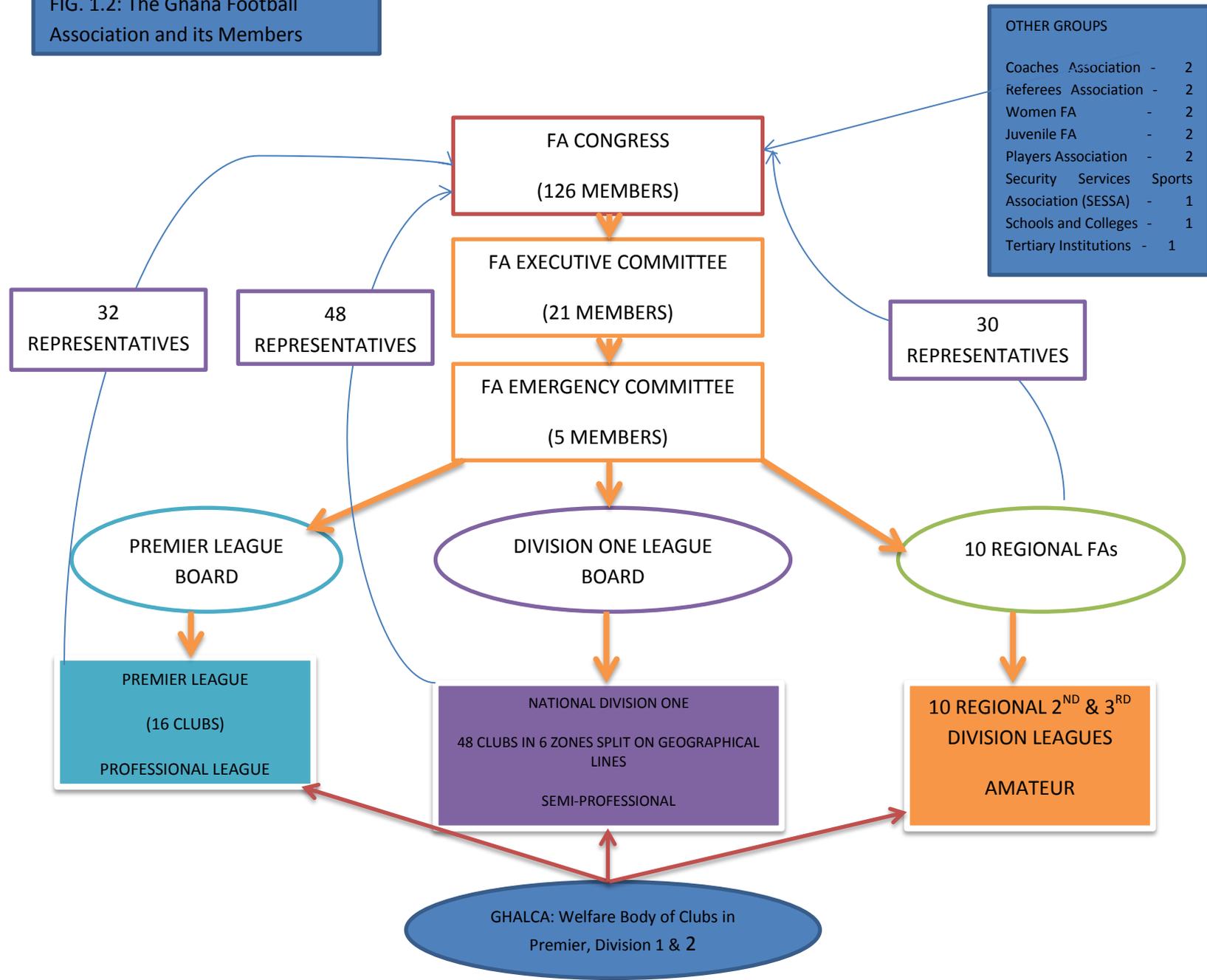
However, in recognition of the social role played by football and the importance of Government's continued financial support for the activities of the FA, especially in the financing of the National Football Teams, the FA introduced into its Statutes, a Public Interest Committee, with representation from both the Government and the FA (GFA, 2010b, Art. 70).

The active role of the clubs in campaigning for the autonomy of the FA from government has meant that the relationship between Government and the clubs is strained to the extent that whilst Government finances the activities of the National Teams through the FA, there is no evident financial support from Government to clubs. This would imply that any suggestion of a role for Government in the financial regulation of clubs would have to be justified to both clubs and Government, on the back of the history between Government and clubs.

### **1.1.3 Governance Structures in Ghanaian football**

Figure 1.2 provides an overview of the composition of the FA Congress and the league structures in Ghanaian football. The GFA Congress is the supreme and legislative organ of the FA (GFA, 2010b, Art. 23). It is the highest decision-making body of the FA with the power to define the general policies and take the necessary decisions for implementation by the Executive Committee (Ex-Co) through the Secretariat.

**FIG. 1.2: The Ghana Football Association and its Members**



It is made up of 123 members selected from the various constituent bodies of the FA such as the clubs, the regional FAs, Women's and Juvenile FAs, Coaches and Players' Associations, Referees' Association, Security Services Sports Association, Schools and Colleges Sports, and Tertiary Education Sports Associations. The Regional FAs (RFAs) represent the 2<sup>nd</sup> and 3<sup>rd</sup> division leagues which are organised at the regional level.

The President of the FA who chairs the Congress, the Executive and Emergency Committees of the FA, is elected at the FA's Congress to serve a four-year term, and can be re-elected without limit. The Executive Committee is a 22-member Board which is responsible for implementing the decisions of Congress. It has six representatives from the Premier Division and four from the Division One clubs. Each of the 10 RFAs is represented on the Executive Committee by its Chairman. The FA president and a representative of the combined group of other constituent bodies are also members of the Ex-Co.

The Emergency Committee is a 5-member committee elected by the membership of the Executive Committee to run the Association in between the meetings of the Executive Committee. The General Secretary of the Association heads the Secretariat and runs the day-to-day activities of the FA with support from the staff and the 13 Standing Committees of the FA.

The FA Executive Committee, however, has the power to delegate in totality or in part, its responsibilities arising out of its area of authority to third parties (GFA, 2010b, Article 32.11, 32.12). The Executive Committee however has no power to review the decisions of any of the judicial organs of the FA

(Disciplinary and Appeal Committees). This has arisen out of the history of the organisation in which management members of the FA affiliated to clubs occasionally required a review of the decisions of the judicial bodies when those decisions were not in the favour of their clubs. This has given the judicial bodies of the FA some semblance of independence.

#### **1.1.4 Ghanaian Football's Achievements**

Ghana is an emerging soccer nation on the world football map. It ranks as the 24<sup>th</sup> best men's soccer nation in the world, and is only second to Cote d'Ivoire in Africa, according to the September 2013 edition of the Coca Cola/FIFA monthly world rankings. It was the first nation to win the African Cup of Nations on four occasions (1963, 1965, 1978 and 1982) and was the highest ranked African team at the last two FIFA World Cup tournaments in Germany (2006) and South Africa (2010), reaching the quarter-finals on both occasions. It was one penalty kick away from becoming the first African team to play in the semi-finals of the World Cup. The country has also qualified to participate in its third consecutive World Cup tournament in Brazil in 2014.

Ghana was the first African country to win a medal at the Olympic Games soccer tournament (Barcelona, 1992), the only African country to win the FIFA Youth Tournament for U-20 players (Egypt, 2009), and has also won the World U-17 soccer title on two occasions (1991 and 1995). The country recently won the bronze medal at the FIFA U-17 Women's World Cup (New Zealand, 2012).

These achievements at the national team level mask difficulties at club level.

Since Asante Kotoko's triumphs in 1971 and 1983 in the CAF Cup of Champion Clubs, and the successes of Hearts of Oak in 2001 (Champions League) and 2005 (Confederation's Cup), Ghana's participation in CAF organised competitions have been marked either by failure on the pitch or by prior withdrawals of clubs on financial grounds (GHALCA, 2010). One difference between national team football and club football in Ghana is its funding – while the national team benefits from public funding from the State, club football is financed primarily from the limited resources of private entrepreneurs.

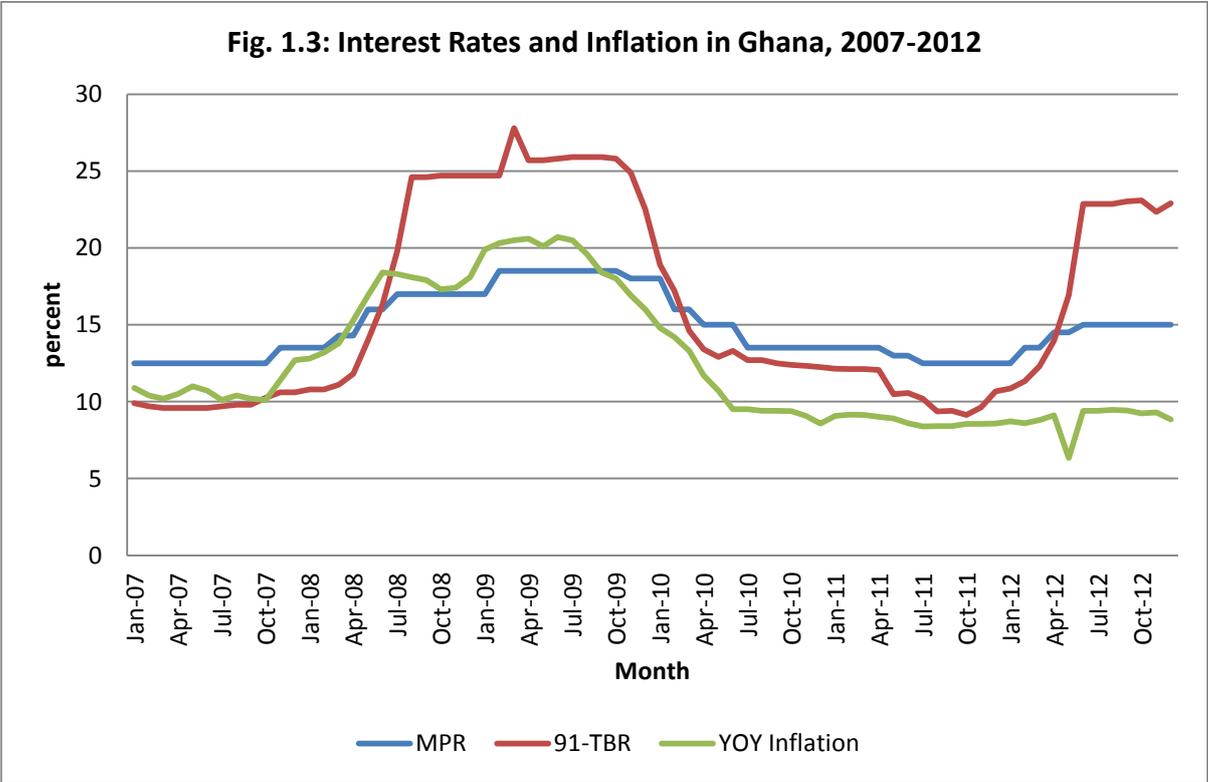
#### **1.1.5 Ghanaian Football's Business Environment**

Ghanaian football clubs, just like their counterparts in several other countries around the world, are faced with an imbalance between revenue and expenditure, leading inevitably to the accumulation of debt. In Europe, the cause of this imbalance may be traced to increases in revenue being matched by significant increases in player costs as clubs attempt to outdo each other to qualify for lucrative domestic leagues, as well as for UEFA club competitions (Balduck and Lucidarme, 2011; Baroncelli and Caruso, 2011; Morrow, 2011; Senaux, 2011; Wilkesmann, Blutner and Muller, 2011). In contrast, although Ghanaian clubs have not seen significant increases in revenue, nevertheless costs continue to increase as a result of increased wage demands, inflation and increasing cost of credit in the country.

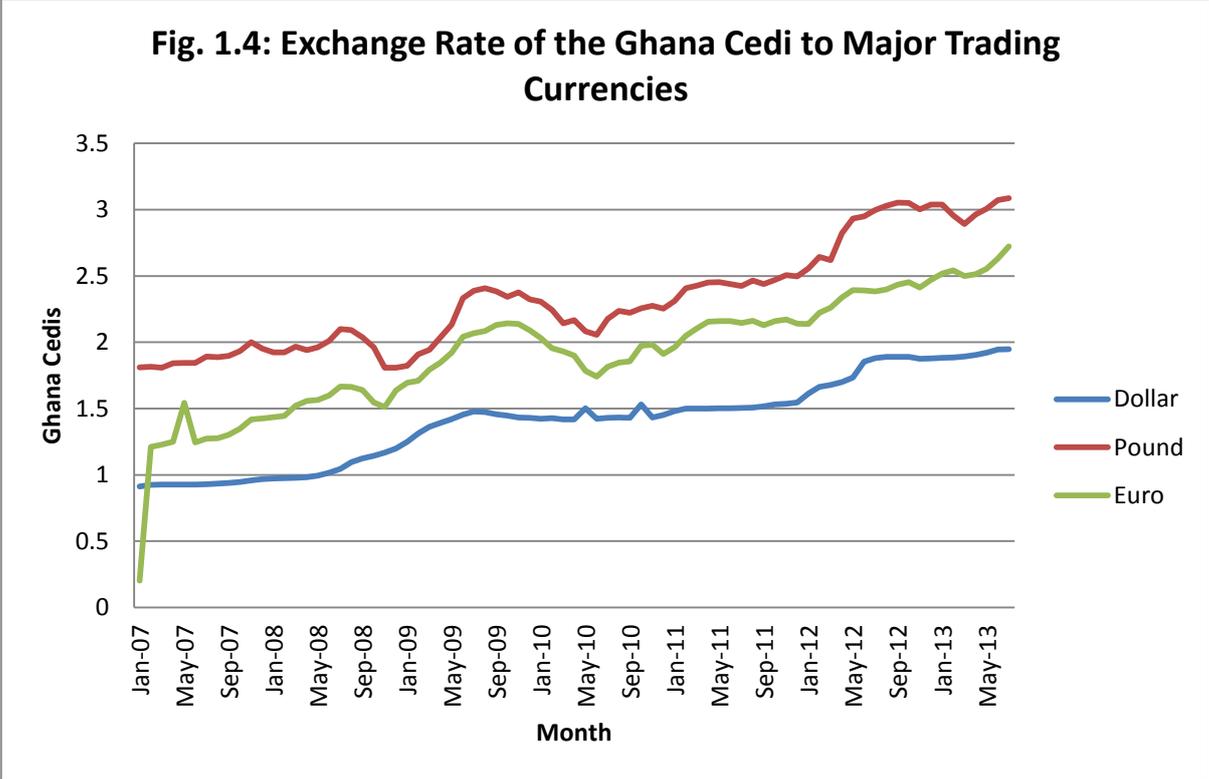
There are considerable challenges to revenue generation. One relates to on-field quality. Ghana ranked 1<sup>st</sup> in Africa and 13<sup>th</sup> in the world in terms of the number of nationals involved in international transfers in 2012 (FIFA, 2013).

The exodus of the best playing talents to other countries in search of better playing conditions and financial rewards, which begun in earnest in the early 1980s, might have made the league less attractive to fans, resulting in lower attendance at matches and lower revenues (Darby, 2012).

The fall in attendance might have also discouraged the clubs from increasing the minimum prices of tickets. In May 2009 the average price was GHC2.00 equivalent to £1(see figure 1.4),. By May 2013 the average price was still GHC 2.00, equivalent to only £0.65 (BOG, 2013). Thus real incomes from league games have fallen along with nominal income. Figure 1.3 also shows that inflation in the country has also averaged over 10% between 2007 and 2012, further eroding the real value of the incomes of clubs.



Even with the low ticket prices, attendance at matches might have also fallen as a result of competition arising from the broadcast of arguably better quality English and Spanish football matches, something which has been found to affect attendance of matches even in other European countries and in the USA (Bainbridge et al, 1996; Bourke, 2011; Cowie and Williams, 1997; Morrow, 1999; Zhang et al, 1998). Also, watching well-produced broadcasts on giant screens for GHC0.50 per match makes economic sense for a lot of fans compared to paying GHC2.00 or more plus travel cost to watch a relatively low-quality domestic league game.



The relatively poor quality of the league also means that the FA encounters significant challenges in marketing it to the corporate world. The sponsorship agreement with telecommunications company, Globacom (Gh.), expired at the end of the 2012/13 league season and has not been renewed as the sponsor

has not paid the amount due to the FA and the clubs for the 2012/13 season. According to [www.footy-ghana.com](http://www.footy-ghana.com), the 2013/14 league season also started in September 2013 without a headline sponsor. Thus not only did clubs have to borrow money in anticipation of being paid by the sponsors for the previous season, but they are also not expecting any new inflow of funds from sponsors in the short-term to pay up their debts, generating additional cash-flow challenges for the clubs.

The consequences of this are exacerbated by the high cost of credit in the country relative to other countries. As shown in Fig 1.3, the representative 91-day treasury-bill rate was almost 23% at the end of December, 2012, after reaching a high of 27.8% in March 2009, compared to an average of 5% in the UK over the same period (World Bank, 2013). This implies that turning to the financial institutions to borrow funds to meet both the short and long-term challenges to their cash-flow problems is unlikely to be a viable alternative.

The media rights to the league for the next three years beginning 2013/14 have been bought by the South African company, Supersports, which is paying US\$700,000 per annum. This does not compare favourably to the US\$40 million and the US\$8.5 million per annum it pays for media rights to South Africa's PSL and the Nigeria PSL respectively. Ostensibly, the size of media rights paid for the Ghanaian league is likely to be a function of the perceived attraction of the league, the size of the Ghanaian market for the television company, and the marketing ability of the Ghana FA.

Merchandising activities of the clubs have also been limited by: the size of the Ghanaian market; the internal marketing capacity of clubs; the lack of attraction

of the league; the unbalanced nature of the fan base which is skewed towards the two big clubs which are supported by about 90% of the country's football fans (Bediako, 2012). The clubs evidently have struggled to package themselves to attract private sponsorship with Kotoko the only club with more than one sponsor at the beginning of the 2012/13 and 2013/14 league seasons.

A combination of taxes, stadium rental costs, deductions for the provision of security, medical and safety services by state organisations all ensure that the average club takes home approximately only 51% of the gate proceeds from a match (GHALCA, 2010).

The migration of Ghana's best talents abroad not only affects the revenue generation ability of the clubs, but also the cost of player purchases and player wages. The clubs compete not only with domestic rivals for the talents available, but also with clubs from Europe, and more recently from South Africa which has become a destination for Ghanaian football talent (Darby and Solberg, 2010). The cost of the remaining talents is higher as players demand more to stay instead of leaving, whilst his former club also demands more in transfer fees as they have alternative buyers to the domestic Ghanaian clubs. The increased international nature of player transfers has also meant that the players and their clubs sometimes negotiate in foreign currency. Thus with a falling value of the local currency, the real cost of player recruitment increases.

Whilst the monthly player wages might be considered low in Ghana (Panneborg, 2010b; Darby, 2010), writers have consistently failed to include the sign-on fees charged by the players and their agents, which can be argued to be part of the earnings of the players over the duration of their contracts. They

might also be ignoring the fact that clubs in Ghana are usually responsible for the accommodation, medical, insurance and utility bills of players. These costs contribute to increased wage expenditure by Ghanaian clubs.

As expenditure levels remain consistently high or in some cases might be rising, Ghanaian clubs are faced with major revenue generation challenges. This apparent imbalance between revenue and expenditure has the potential to threaten the financial stability of most individual clubs and is also a risk to the sporting integrity of the league as a whole. According to data from Bediako (2012), only four out of the 14 clubs that started the 1992 league season were still playing Premier League football after 20 years in 2012. No fewer than six clubs have ceased to exist, while the remaining four clubs have failed to return to the elite division since relegation. A further three clubs which took part in the 2002 league have gone into liquidation due to financial difficulties after only ten years in existence.

This brief overview demonstrates that the Ghanaian football business environment provides a very compelling context within which to discuss the finances and the financial regulation of professional football clubs. Financial regulation of the clubs would let them appreciate the challenges of the business environment within which they operate, allowing them to incorporate that in their decision-making. An appropriate incentive-based financial regulatory framework can also help in limiting the challenges posed to the financial management of clubs by the business environment.

## **1.2 THE RESEARCH AIMS AND OBJECTIVES**

In recognition of the challenges to the financial stability of European football clubs arising out of accumulating debts, in 2010 UEFA introduced the UEFA Club Licensing and Financial Fair Play Regulations (UEFA CL & FFPR). Countries like France, Germany and those in Scandinavia have a long history of financial licensing, and these countries' systems have served as a template for UEFA's regulatory system (Gammelsaeter and Senaux, 2011). Financial licensing is a key component of the financial regulatory framework utilised by UEFA. In its attempt to improve the professionalism in club football world-wide and to ensure the long-term viability of national leagues, world governing body, FIFA has also developed guidelines for the implementation of mandatory club licensing legislation at the level of each national association (FIFA, 2010). These are targeted primarily at clubs featuring in the various top leagues within FIFA's member associations.

The current financial regulatory framework in Ghanaian football is defined by a few Articles in the GFA Rules and Regulations, and in its Statutes that attempt to address, directly or indirectly, the financial management of football clubs. Article 8(1)(a) legislates for the incorporation of all Premier League clubs, whilst Article 8(2) deals with the responsibilities of an incorporated club (GFA, 2010, Article 8.1, 8.2). The rationale for the introduction of the incorporation rule, according to the FA (GFA, 1994), was that incorporation would automatically challenge clubs to increase the responsibility of directors. With respect to other countries, it is also argued that incorporation would also transform clubs' financial management process to ensure their financial stability and the integrity of the league (Mutter and Huber, 2011).

However, as Morrow (2003) argues there is no 'best model' for a football club in terms of ownership and governance and the superiority of a legal form over others may be context specific. Morrow (2011) points out that incorporation can sometimes generate adverse consequences due to a conflict, perceived or otherwise, between sporting and financial objectives, where the need for managers to achieve sporting success conflicts with the prioritization of financial returns for owners. Thus in the absence of regulatory structures to ensure convergence of sporting and financial objectives, the mere incorporation of a club and the required submissions of financial statements annually do not in themselves guarantee improved financial management of a football club.

Article 40 (1) gives the FA the right to investigate cases of financial mismanagement of clubs and to restore order in a club if it deems it necessary to protect the image of the league. Related to this, Article 8 (1b) also enjoins clubs not to register more than 50 players in any one league season to ensure that clubs do not overburden themselves with a large pool of players that would lead to excessive player cost.

However, given the financial management challenges facing Ghanaian clubs, there is little evidence to suggest that the current financial regulatory framework in operation in Ghana is effective. The financial regulatory framework in operation in any football environment has the potential to influence the quality of financial reporting carried out by the clubs, their investment choices, and ultimately their financial performance. The requirement by FIFA for Ghana to implement a club licensing system therefore provides an opportunity for Ghana to develop a more comprehensive financial regulatory framework, one which

takes into account the social, political, economic and financial environment within which Ghanaian clubs operate.

However, while considerable lessons can be learnt from the operation of financial licensing frameworks in other jurisdictions, the national associations, and by extension, league clubs are not a homogenous group around the world (Walters, 2007). Thus it can be argued that models used for developed market economies, for instance, may not necessarily be appropriate for developing economies (Luiz and Fadal, 2010). The regulatory institutions that are relevant for a country are also not independent of the country's history (Rodrik, 2000). As such it is important to conduct research to help determine the most appropriate financial regulatory framework for each of the national associations.

An attempt to develop a context-specific financial regulatory framework for Ghanaian football requires an appreciation of the institutional and industry conditions specific to Ghana football, which in turn shape the regulatory objectives, and the scope and form of the regulatory process (Sappington, 1994). However, beyond the anecdotal evidence suggesting weaknesses in the existing financial regulatory framework for Ghanaian football, there is no known attempt to document the exact industry conditions to include consideration of matters such as: pricing and attendance; revenue generation and expenditure patterns of clubs; financial performance and position of clubs; the adequacy or otherwise of existing legislation; and the quality of financial reporting done by clubs.

There is also no documented evidence on the financial management practices of clubs to influence policy-making both at the level of the FA and Government.

The suggestion by GHALCA (2010) that the CAF inter-club competitions are not an attraction to Ghanaian clubs, and rather are the source of the accumulated debt of some of its members is not backed by any documented financial evidence. The suggestion by some clubs that their financial management are a function of the lack of capacity within the FA to implement the appropriate financial regulatory systems in Ghana also needs to be verified. The lessons that can also be learnt from the experiences of other leagues and national associations should also be evaluated and incorporated into the policy design process.

The fundamental aim of the study is to critically review the framework for the financial regulation of professional football in Ghana and propose an appropriate framework specific to the context of Ghana.

The following objectives have been identified as a road map to achieve this aim:

1. To critically appraise and evaluate existing frameworks of financial regulation in football and assess their applicability in the Ghanaian context;
2. To evaluate the current financial disclosure practices of Ghanaian professional football clubs;
3. To evaluate the financial position and performance of Ghanaian professional football clubs and assess whether they are financially sustainable entities;
4. To evaluate the existing framework for regulating the finances of Ghanaian clubs; and

5. To develop an incentive-based financial regulatory framework applicable to the Ghanaian context

### **1.3 IMPORTANCE AND CONTRIBUTIONS OF THE STUDY**

Most academic work done on African football concentrates on the external migration of football talents from African leagues (Darby, 2009; Darby, Akindes and Kirwin, 2007; Darby and Solberg, 2010; Poli, 2006, 2010); the place of Africa in the power relations of global football (Desai and Vahed, 2010; Ngonyama, 2010); the impact of hosting major global events (Ndlovu, 2010; Steinbrink et al, 2011); and feminism in African football (Saavedra, 2003). The study on superstition in football by Ofori (2013) and the politicisation of football in Ghana by Fridy and Brobbey (2009) remain the only other known academic works specific to Ghana football. This study is therefore important from several standpoints.

The study is the first of its kind in Ghana on football finance, football financial reporting and financial regulation in football. It is the first study to publish financial figures on Ghanaian football clubs which hitherto have been unavailable out with the clubs and governing bodies. While the sports finance and sport management literature is replete with papers analysing financial aspects of primarily European and American football leagues, no known academic studies have focused on data from African market economies.

This study is the first of its kind to provide a discussion on the financial position and performance of clubs in Ghana and to assess whether these organisations are financially viable. This work thus makes an important contribution in, for the

first time, providing stakeholders of Ghana football with the necessary information for policy formulation around the key areas of financial management and financial regulation. While the thesis is focused on a particular area of economic activity, more generally, the thesis also contributes to the growing literature on financial management and financial performance within developing economies. This allows for the comparison of financial performance of football clubs in different jurisdictions to be made.

The review and analysis of existing financial regulation frameworks in football worldwide provides regulators with the basis upon which to make informed assessments as to whether world-wide general regulations such as the FIFA Club Licensing regulations are effective at meeting the specific needs of different countries. Specifically, the study greatly enhances academic and independent discussions of the FIFA licensing regulations; to date, the great majority of literature in sports finance and sport management has focused on the UEFA Financial Fair Play regulations.

Building on this, the study is the first known attempt to develop an original context-specific financial regulatory framework for any of FIFA's member associations. The study thoroughly details out the exact procedures adopted in the formulation of a financial regulatory framework which is applicable in a particular context, in this case, Ghana. This, it can be argued, allows for other researchers and policy makers to replicate this study, utilising the processes adopted by this study and the specific institutional factors pertaining in those countries. Therefore the process of the development of the framework can also be adopted by FIFA for application in other member countries.

#### **1.4 ORGANISATION OF THE THESIS**

The thesis is organised in nine chapters. Chapter 1 provides the general context for the study by identifying and discussing issues relating to the Ghanaian football environment in particular: its governance structure; existing financial regulations; and the financial environment facing its clubs. Building on this the research aim and objectives of the study are then specified. The chapter continues by setting out the importance of the study.

Chapter 2 focuses on the conceptual framework adopted for the study and the points of convergence and divergence between Sappington's framework and the other theories of regulation and regulatory design. The weaknesses in Sappington's model and how these can be resolved within the framework proposed by this study are identified.

In Chapter 3 the methodological approach to the study is introduced and a justification provided for the adoption of both qualitative and quantitative methods in this study.

Building on Chapters 2 and 3, Chapter 4 adopts Sappington's framework as the basis for reviewing existing regulatory frameworks such as the UEFA Club Licensing and Financial Fair Play Regulations and the Scottish Club Licensing Regulations. The aim is to acquire a detailed understanding of these frameworks to assist in the development of a conceptual framework for financial regulation of professional football in Ghana.

In Chapter 5 the focus returns explicitly to Ghana, with focus on the quality of financial disclosure in professional football in Ghana, the financial position and performance of Ghanaian clubs, and consideration of broader financial issues

which impact upon clubs' financial management such as access to funding from financial institutions.

In Chapter 6 an initial conceptual framework for the financial regulation of football in Ghana is proposed, building on the previous chapters. The framework developed is a context-specific incentive-based Football Financial Clearinghouse applicable to Ghana.

Chapter 7 discusses the result of the interrogation process for the framework developed. Evidence is provided on the perspectives of Ghanaian football's stakeholders on: the rationale for financial regulation; financial disclosure in Ghanaian professional football; access to both private and public funding; financial capacity building and policy advocacy; their general impressions about the FFC framework; and the expected implementation challenges.

Building on the evidence and analysis of stakeholder interviews in the previous chapter, chapter 8 sets out the primary outcome of the study, the modified version of the FFC framework.

The contributions, conclusions and the implications of the study for researchers, stakeholders and for policy are then reported in Chapter 9.

## CHAPTER II

### PRINCIPLES OF REGULATORY POLICY DESIGN:

#### THE SAPPINGTON MODEL

##### 2.1 INTRODUCTION

The chapter aims at reviewing theories of regulation and how they feed into regulatory design models. As would become evident at the end of the review, Sappington's (1994) principles of regulatory design provides a more comprehensive and compelling framework for the design of regulation in any context, compared to the others reviewed. Sappington's model is thus adopted as the conceptual framework for this study. The discussions that follow, therefore, concentrate on providing a detailed discussion of the Sappington framework, and its relevance for the current study. The review also draws out the point(s) of convergence or divergence between Sappington's model and the other existing frameworks, whilst also pointing out limitations of the Sappington model, and how that can be addressed by the financial regulatory framework to be developed by this study.

Section 2.1 defines regulation, discusses the focus of research on regulation and provides a general overview of Sappington's framework which has been chosen as the conceptual framework for this thesis. Section 2.2 discusses the objectives and function of regulation in the literature, whilst section 2.3 focuses on how the resources of the regulator affect its independence and ability to resist regulatory capture. Section 2.4 then discusses the effect of the institutional environment on the regulatory design process, whilst section 2.5

deals with the importance of industry conditions on the form that regulation takes. Section 2.6 analyses the form and scope of regulation, whilst section 2.7 concludes the chapter with the summary of the discussions, and a further rationalisation of the choice of the Sappington framework as the conceptual framework of the study.

### **2.1.1 Focus of Research on Regulation**

Table 2.1, 2.2 and 2.3 provide a summary of the relevant literature on the theories of regulation and regulatory design, showing their main focus and discussing their strengths and weaknesses in relation to the financial regulation of football and thus, their relevance for this study. It also traces the history of the discussions on regulation and provides a basis for a review of Sappington's (1994) regulatory framework.

Baldwin et al. (2010) also provide an account of the shifting focus of research on regulation over time away from the command and control structure of the 1960s and 1970s. They trace the movement away from the traditional interest-group driven approaches to the less restrictive and incentive-based controls of the 1980s (Breyer, 1982). These early approaches were followed by models whose primary focus were limited to regulatory enforcement such as responsive regulation (Ayres & Braithwaite, 1992; Braithwaite, 2002); smart regulation (Gunningham, 1999; Gunningham and Grabosky, 1999); and regulatory craft (Sparrow, 2000).

Author (s)	Orientation	Implications for the financial regulation of football	
		Strengths	Weaknesses
<b>Tullock (1967)</b>	economic rationale for regulation	interest groups within football can engage in rent-seeking activities. 2. Importance of institutional factors	limited to only economic rationale for regulation
<b>Stigler (1971)</b>	demand for regulation	1. discusses who receives the benefits and costs of regulation 2. importance of industry conditions in regulatory design	limited treatment of supply of regulation i.e. why regulation is imposed
<b>Posner (1971)</b>	regulation of utilities	provides a critique of Stigler's theory	focuses only on public regulation
<b>Ehrlich and Posner (1974)</b>	cost associated with regulation	importance of financial resources in regulatory design in resource constrained environment	limited focus on cost of regulation
<b>Oliver (1980)</b>	positive versus negative incentives	provides a basis for choosing either positive or negative incentives in football regulation	limited to compliance response of regulatee to different types of incentives
<b>Breyer (1982)</b>	incentive-based controls	suggests a role for incentives in regulation	focuses more on coercion rather than deterrence
<b>Diver (1983)</b>	regulatory standards	discusses the features of good regulatory standards (relates to form of regulation)	deals with only a limited aspect of regulation
<b>Becker (1983)</b>	regulatory capture	1. importance of ensuring the independence of the regulator 2. importance of institutional factors	fails to discuss the objectives of regulation and importance of resources to regulatory design
<b>Kagan and Scholz (1984)</b>	motivation of corporate leaders	justifies the need for regulation in the face of corporate leaders with 'amoral characters'	focuses only on the use of deterrence approach
<b>Selznick (1985)</b>	definition of regulation	defines regulation	limited application of definition
<b>Gunningham (1987)</b>	negative effects of deterrence approach	discusses why deterrence approach can lead to unintended consequences.	limited to compliance response of regulatee
<b>Fenn and Veljanovski (1988)</b>	response to regulation by regulatee	discusses the possible response of regulatee to the imposition of regulation.	focuses only on compliance response of regulatee
<b>Peltzman (1989)</b>	demand for regulation	Shows each industry has stakeholders beyond the firms themselves.	limited to only the demand side of regulation.
<b>Craig (1990)</b>	public choice theory	public interest role in the regulation of social activities such as football	discussion limited to market failure rationale for regulation

Author (s)	Orientation	Implications for the financial regulation of football	
		Strengths	Weaknesses
<b>McBarnet and Whelan (1991)</b>	principles versus rule based standards	choosing between principles and rules in standard setting	choice between types of standards not sacrosanct.
<b>Ayres &amp; Braithwaite (1992)</b>	responsive regulation	developed the regulatory enforcement pyramid	1. only sees the government as the regulator. 2. discounts self- and meta-regulation
<b>Laffont and Tirole (1991, 1993)</b>	regulatory capture (principal agent model)	points out the incentive problems faced by auditors and managers in information disclosure	deals with limited aspect of regulation
<b>Hutter (1993)</b>	compliance strategies	offers incentive-based regulation as an option	focuses on compliance response (i.e. the form of regulation) and not regulatory design
<b>Ogus (1994)</b>	community value	importance of objectives beyond the economic for social institutions like football	what counts for community value indeterminate
<b>Levy and Spiller (1994)</b>	transaction cost approach	1. importance of industry conditions for regulatory design 2. defines the beneficiaries of regulation.	focuses on cost of regulation and not regulatory design
<b>Haines (1997)</b>	enforcement pyramid	shows how punishment can be combined to achieve regulatory compliance	concentrates on compliance response of regulatee
<b>Gunningham and Grabosky (1999)</b>	smart regulation	utilizes enforcement pyramid but recognizes meta-regulation	movement up and down an enforcement pyramid may be inefficient
<b>Llewellyn (1999)</b>	regulation of financial markets	1. provides a rationale for the regulation of financial industry. 2. points out the importance of industry conditions in regulatory design 3. important role of monitoring	does not discuss the importance of resources of regulator to regulatory design
<b>Sparrow (2000)</b>	regulatory craft	1. utilizes a problem solving approach. 2. regulation should seek to resolve key issues. 3. recognizes the importance of context.	concentration on big problems may miss several small problems.
<b>Perrow (2000)</b>	conventional versus meta-regulation	provides a distinction between the tools of conventional and meta-regulation	concentrates on compliance response and ignores objectives of regulation
<b>Rodrik, 2000</b>	industrial regulation	importance of institutional factors in regulatory design	concentration on industrial policy

Author (s)	Orientation	Implications for the financial regulation of football	
		Strengths	Weaknesses
<b>Hood et al (2001)</b>	regulatory standards	discusses the key characteristics of quality regulatory standards	focuses only on the form of regulation
<b>Simpson (2002)</b>	deterrence and compliance strategies	detailed discussion of choice between deterrence and compliance	focuses on compliance response
<b>Baldwin and Anderson (2002)</b>	specific versus general deterrence	determinants of choice between specific and general deterrence	limited to discussion of form of regulation
<b>Coglianesse and Lazear (2002)</b>	self and meta-regulation	1. regulatory discretion pyramid. 2. football's regulatory structures combine both self- and meta-regulation	possibility of abuse of discretion by the self-regulated firm
<b>Hood et al (2004)</b>	public interest regulation	rationalizes the public role in regulation	limited focus on objectives of regulation
<b>Scott (2004)</b>	critique of enforcement pyramid	provides critique of pyramidal response	focuses on compliance response
<b>Black (2005)</b>	risk-based regulation	argues for the regulation of bodies and organizations posing the most risk	may ignore many small risks
<b>Sama and Shoaf (2005)</b>	standard setting	identifies basis of recent accounting scandals	limited focus on regulatory form
<b>Hampton (2005)</b>	risk-based regulation	regulation of large risks	may ignore many small risks
<b>Hutter (2006)</b>	meta-regulation	identifies importance of several layers of regulatory authority as in football	
<b>Baldwin and Black (2008)</b>	really-responsive-regulation	1. importance of institutional environment 2. motivational posture of regulatee 3. compliance response 4. attitudinal setting of regulatee 5. resources of regulator 6. effect of changes in regulator's circumstances	regulatory capture not considered
<b>Brunnermeier et al (2009)</b>	regulation of financial markets	similarities between financial and football industry suggests similar regulations (e.g. use of clearinghouse)	focuses only on rationale for regulation and not the regulatory design process
<b>Veljanovski (2010)</b>	strategic use of regulation	1. role of institutional and industry conditions on regulatory design. 2. possibility of regulatory capture 3. importance of independence of regulator	concentrate only on the form of regulation
<b>Scott (2010)</b>	principles versus rule based standards	importance of combination of both types of standards	concentrates on the form of regulation and not its determinants

The weaknesses identified in these early approaches, which are discussed in detail later in this section, led to the development of regulatory approaches that emphasise institutional structures that determine a firm's response to regulation. These include risk-based (Black, 2005) and 'really responsive regulation' (Baldwin and Black, 2008). Sunstein and Thaler (2008) focus more on the motivations and behaviours of the regulation community whilst 'better regulation' or 'high quality regulation' (Lodge & Wegrich, 2009) focuses on a reduction in the cost and burden of regulation on business units and individuals. These models in general, it can be argued, deal with specific aspects of regulation and do not pass as comprehensive models of regulatory design.

### **2.1.2 What is Regulation?**

One of the early attempts to provide a definition of regulation was made by Selznick who suggested that it was:

"The sustained and focused control exercised by a public authority over activities valued by the community"

(1985, pp. 363)

The target of regulation can be a firm or organisation or individual which provides activities deemed valuable to a community. It is to that firm, organisation or individual that regulation is applied and which bears the consequences of non-compliance (Coglianese and Mendelson, 2010). According to this definition, the regulator is the public authority, either within or outside the community that creates and enforces the rule, whilst a command is what the regulator requires the target to do or refrain from doing. This definition,

thus, feeds into the debate on private versus public regulation, and the advantages of each.

Black (2001), however, argues that defining a community, what constitutes its values, and how control is exercised in a community is in itself subject to debate. Thus it can be argued that the usefulness of Selznick's definition is limited by an apparent lack of clarity. Black (2001, pp. 104) offers an alternative definition of regulation as:

“...Intentional use of authority to affect behaviours of a different party according to set standards, involving instruments of information gathering and behaviour modification---“

This is considered by the likes of Baldwin et al. (2012) as being superior to Selznick's definition as it provides a clear line of authority and also involves information gathering in an attempt to modify behaviour. Whilst Black's (2001) definition does not suggest that the regulator has to be a public authority, a key challenge to the definition comes from proponents of self-regulation (Brint, 1994; Freidson, 2001; Larson, 1977), as it seems to make little room for an organization regulating itself, a feature of several contemporary forms of regulation. This definition also seems to discount the possibility that the creator of the regulation might delegate enforcement to another entity, which has become a feature of self-regulatory and meta-regulatory frameworks.

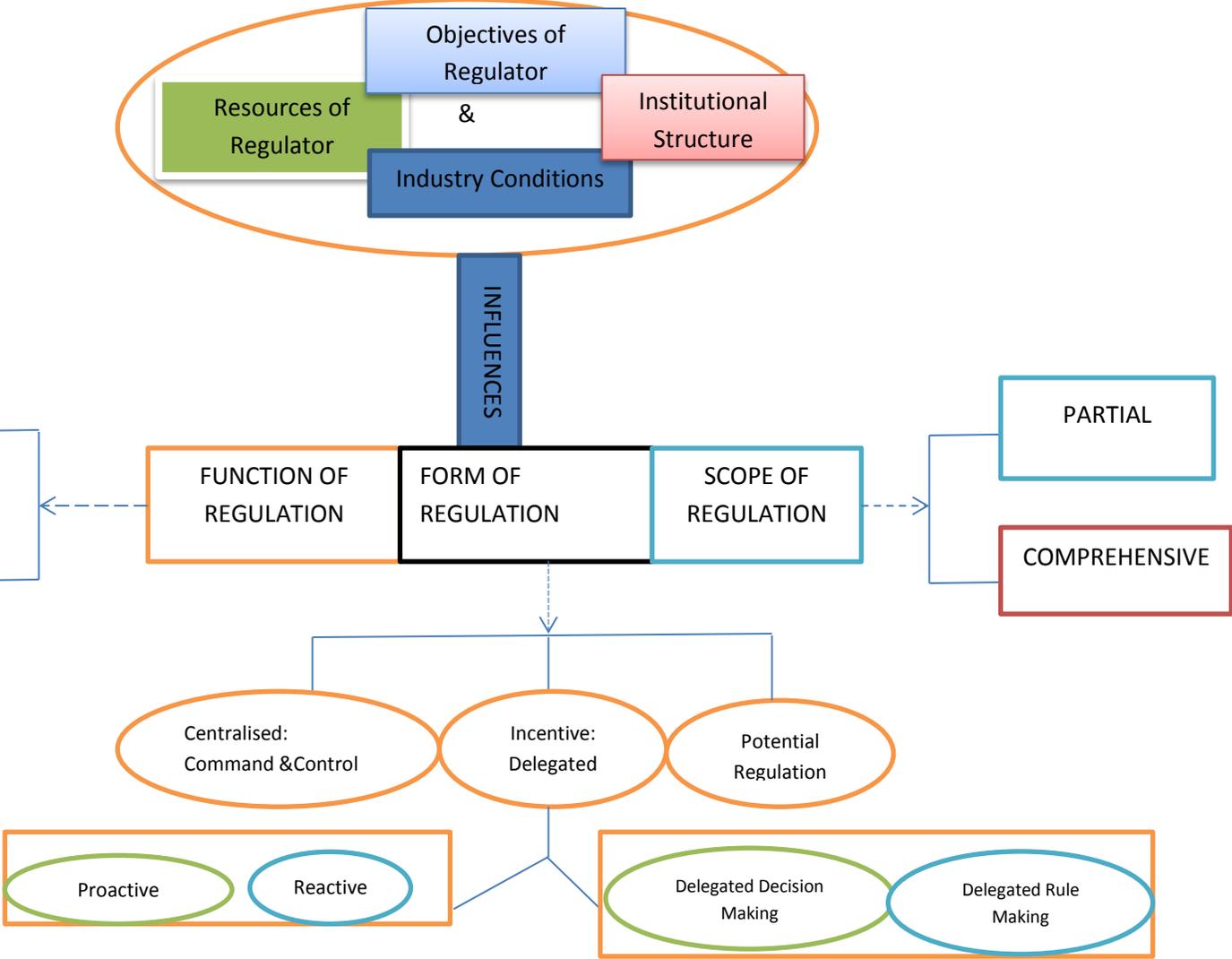
### **2.1.3 Sappington's Principles of Regulatory Design: An Overview**

In his seminal paper on 'Principles of Regulatory Design' which served as a background paper for the World Bank's World Development Report, 1994, Sappington (1994) provided a framework for the development of regulation in any sector of society. Figure 2.1 provides an overview of Sappington's framework in which it is argued that the form, function and scope of any regulatory framework depends crucially on: the objectives of the regulator; the resources available to the regulator; the industry to be regulated; and the institutional structure of the jurisdiction within which the regulator operates.

This implies that even where the objectives of regulators in a particular industry within two different jurisdictions are identical, differences in institutional environment would necessarily mean that the form that regulation takes would differ accordingly. It also means that the scope and function of regulation would be different. Where resources available to different regulators also vary, the form, the function and the scope of regulation would also be affected.

Sappington's argument finds support from Rodrik (2000) who posits that the institutions that are necessary for the growth and development of a country, a community or an industry are not independent of its history, and that these institutions evolve over time even within the same jurisdiction. Thus institutions that are relevant for the development of one country would not necessarily be relevant in other countries due to context-specific differences.

FIG 2.1: SAPPINGTON'S FRAMEWORK

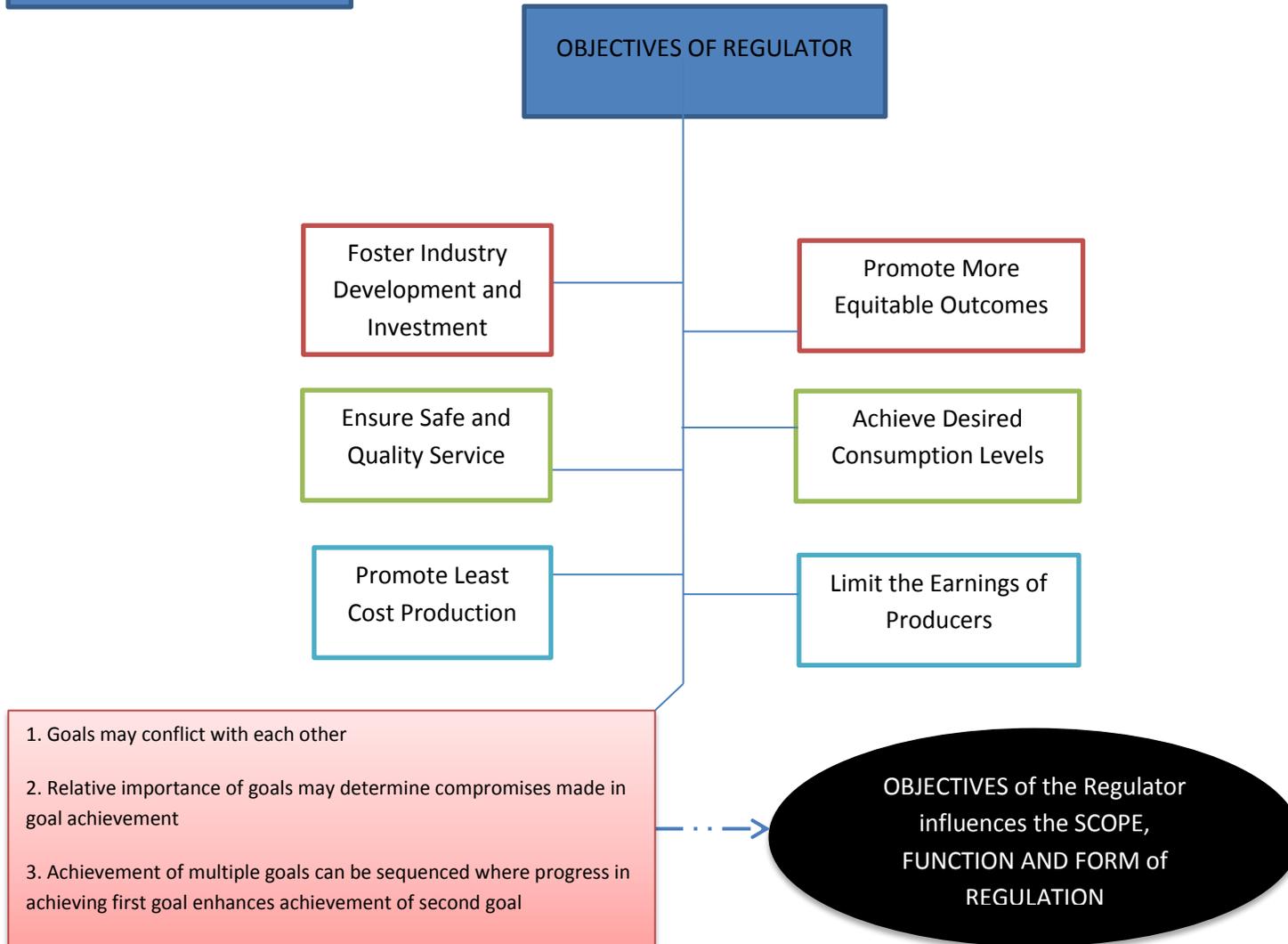


## **2.2. THE OBJECTIVES AND FUNCTION OF REGULATION**

Similar to Sappington's formulation, the importance of regulatory objectives in defining the form and scope of regulation is something that is recognised by Baldwin and Black (2008) in their discussion of 'really responsive regulation', where they argue that a regulator has to be responsive to changes in the objectives, priorities and circumstances of the regulator. A really responsive regulator must also be responsive to the institutional environment within which both the regulator and the regulatee operate. The institutional environment, for example, would include the distribution of resources within an industry. However, Baldwin and Black (2008), like many other earlier writers (Becker, 1983; Breyer, 1979, 1982; Laffont and Tirole, 1991, 1993; Posner, 1971, 1974; Stigler, 1971; Tullock, 1967) failed to go beyond recognition of the importance of regulatory objectives, into providing details of what these objectives could be. Sappington (1994) on the other hand provides a very comprehensive discussion of the possible goals of regulation, without suggesting that this is an exhaustive list.

Figure 2.2 provides examples of objectives of the regulator in Sappington's framework. For example, the regulator can mandate the adoption of particular operating equipment or technique to promote its use, in a command-and-control design. It can also promise incentives for new investment in industry performance improvement, in an attempt to foster development in the industry.

FIG. 2.2: OBJECTIVES OF REGULATOR



The regulator can also dictate and enforce operational and performance standards (see Brunnermeier et al., 2009 in respect of financial markets), set targets and define rewards system in an attempt to ensure that safe and quality service are provided. Other objectives of regulation, according to Sappington (1994), could include promoting least-cost production, achieving desired levels of consumption, promoting more equitable outcomes, and limiting the earning potentials of producers. In the context of this study, these objectives could include: providing for subsidies to clubs; league regulating entry to optimize joint league incomes; and ensuring that smaller clubs are not exploited by larger clubs in respect of player purchases.

Various aspects of these objectives have found support in the literature as well. Public choice theory has the underlying assumption that both the market place and the political arena are inhabited by individuals who attempt to maximise their welfare (Craig, 1990). As such regulation would only be demanded where evidence of market failure exists and needs correction. Markets may fail either due to the existence of market power, externalities, public goods or asymmetric information (Stieglitz, 1989). Proponents of normative theories of economic regulation, for instance, argue that in the absence of government intervention, the distribution of resources would not be efficient. It must be noted, however, that others have offered rationales for regulation that are quite different from those suggested by Sappington. For instance Stigler (1971) argues that politicians supply regulation to maximise the likelihood of staying in office, suggesting the possibility of regulatory capture.

According to Sappington (1994), the function of a regulation could either be informing or enforcing regulation (Fig. 2.1). Thus it could be providing information for consumers to make an informed choice, or making the choices on behalf of the consumer. The difference is the extent to which regulation serves to inform the consumers about the regulated firm's activities or dictate which activities are allowed. This is a position shared, for example, by Brunnermeier et al. (2009) who argue that issues such as: asymmetric information; agency costs; conflicts of interest on the part of the service provider; the need to ensure consumer confidence, which has positive externalities; and the economies of scale that exist in the monitoring of financial firms all provide rationales for the regulation of financial markets.

Some regulations ensure some minimum level of information disclosure (for example, a requirement for companies to submit annual financial statements to the Registrar of Companies). Financial disclosure regulations are meant to serve a stewardship role between firm managers and the other stakeholders (Gary et al., 1995; Sarpong and Gray, 1989); to encourage managers to disclose adequate levels of financial information (Barrow, 2011; Gasking, 1999; Narayanaswamy, 1996, Nicholls and Ahmed, 1995), so that accountants do not utilise their superior accounting knowledge to give misleading information (Morrow, 2006). Others are designed primarily to: protect consumers from unsafe products; ensure that all customers are treated in similar fashion; limit the producer profits of the monopolist; or to control various aspects of the interactions among producers within an industry.

These goals of regulation can be argued to be mainly economic in nature. However Feintuck (2010) proposed that regulation in certain fields such as healthcare and education should incorporate and give emphasis to values beyond those of the market because economics sometimes fails to account for community and political values such as social justice. Others have argued that the goals of 'community value' cannot be achieved in an unregulated market (Ogus, 1994). In the context of this study, sport has social goals that go beyond business, and as such there is a public interest rational for the regulation of football to achieve these social goals or the 'community value' in sports. This is used to justify government support for football activities even though Noll and Zimbalist (1997) suggest that it is difficult to do so. Coggburn and Schneider (2003) thus suggest that even where justified, any public financial support for any industry or firm must be linked to the achievement of set performance targets.

Whilst multiple objectives of regulatory design exist, the achievement of all of the goals of a regulator is limited by the potential for conflict to exist between goals (Sappington, 1994). For example, the goal of fostering development in the industry might not necessarily be compatible with an attempt to limit producer profits or ensuring equitable outcomes. Alternatively, cost minimisation and quality enhancement may be in conflict under certain circumstances. Whilst cost minimisation is recognised by Sappington's as a possible objective of regulation, he fails to provide a detailed discussion of the possible costs associated with the regulatory design process, which can affect its implementation success. As Coase (1960) pointed out, however, regulation

generates its own costs and inefficiencies and these require to be factored into any regulatory design process.

This is a challenge that was taken on by Ehrlich and Posner (1974) who posit that the objective of regulatory design is to minimize cost associated with the process. These costs come in the form of the costs of making the rules (Rulemaking Costs); the cost to the regulator of enforcing the regulations (Enforcement Costs); the cost to the regulatee of complying with the regulations (Compliance Costs); the costs imposed by regulatory offences (Harm Costs); and the costs of getting regulation wrong (Error Costs). An efficient regulatory system, according to Ehrlich and Posner (1974), minimises the sum total of these costs by selecting the appropriate rule, level and type of enforcement. This approach however, can be said to have a very limited focus and cannot be considered as an adequate conceptual framework for this thesis. Whilst it is important that designers of regulation take into consideration the importance of the regulatory cost, especially in resource-constrained environment, the regulatory design process goes beyond just the cost of regulation as shown by Sappington's framework.

The regulator can also have multiple objectives including regulation, supervision and monitoring (Llewellyn; 1999). According to Sappington (1994), whilst conflicts among multiple goals might be resolved by making compromises between the goals, the compromise made would depend on the relative importance of the conflicting goals. The relative importance of the goals is in itself a function of the expected consequences of failing to meet each of the conflicting goals. Sappington argues further that if failure to meet a particular goal would have a substantial, obvious, immediate, and adverse

impact, the regulator would likely give that goal a high priority. Multiple goals may be achieved by sequencing, without a need to attempt to achieve the goals simultaneously, especially where progress in achievement of goal 1 improves the chances of achieving goal 2. The simultaneous attainment of sporting and commercial objectives, it can be argued, is a challenge football clubs in particular continue to contend with around the world.

It can be argued that Sappington's discussions of the goals of regulation are limited by a lack of appreciation of the possibility that the goals of regulation in itself are determined by the industry conditions and the institutional environment of the regulator and the regulatee. His formulation gives the impression that the objectives, resources, industry conditions, and the institutional environment, whilst together determining the scope, the form and function of regulation, are independent of each other.

### **2.3 THE RESOURCES, INDEPENDENCE OF REGULATOR AND REGULATORY CAPTURE**

Figure 2.3 provides an overview of the resources required by a regulator in Sappington's framework. According to Sappington (1994), the quality and quantity of resources available to the regulator would determine the level of information used in the design, implementation and evaluation of the regulatory process within the regulated industry. The resources include the size, educational training, and experience of regulatory staff.

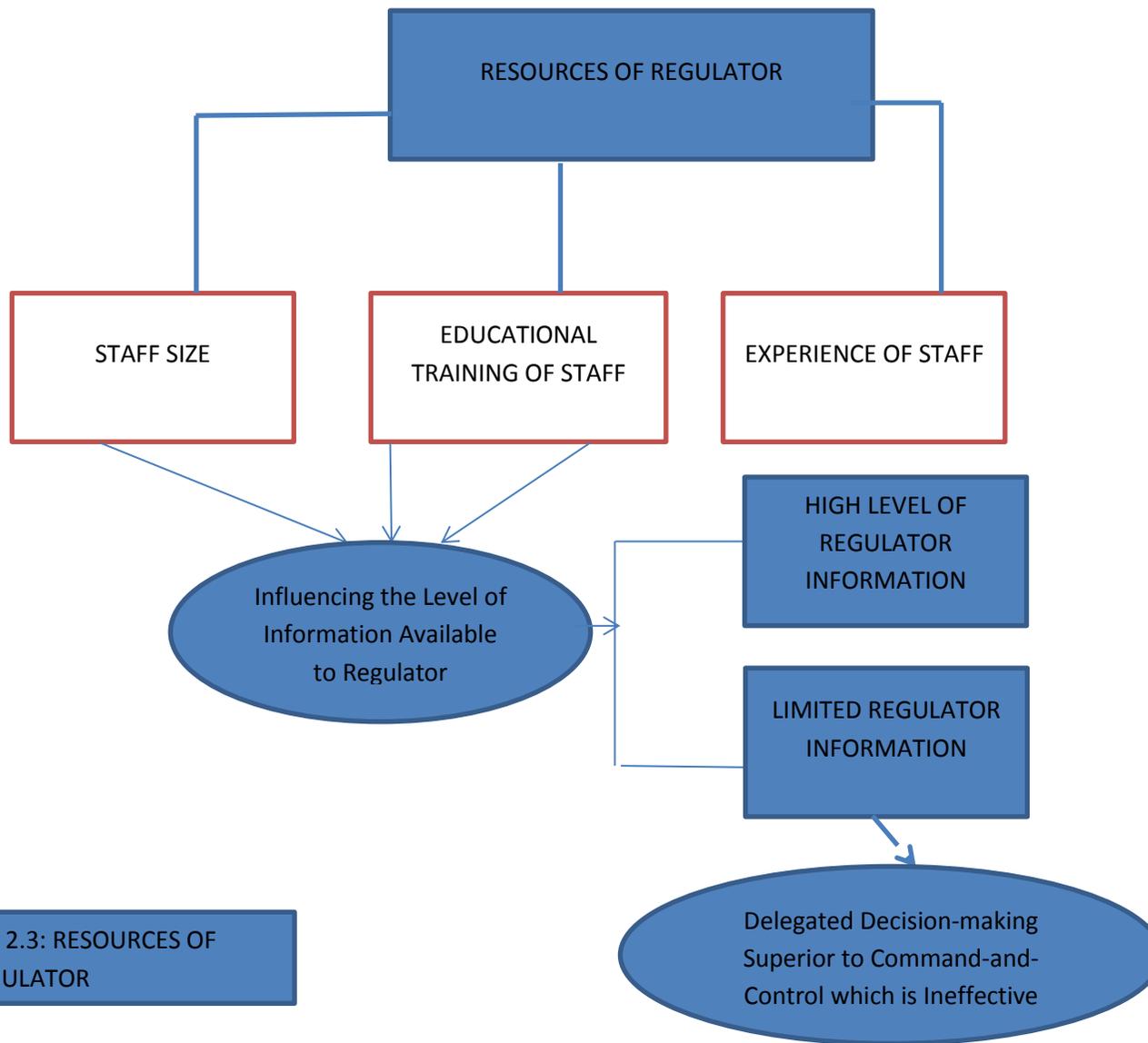


FIG. 2.3: RESOURCES OF REGULATOR

Sappington further argues that the extent of information available to the regulator determines the choice between command-and-control regulation and incentive-based delegated regulation in terms of relative effectiveness. He argues that in the absence of extensive information about the industry, regulatory policy is better served when decision-making is delegated to the (better-informed) regulated firm.

For example, allowing the price-setting function of regulation in the telecommunication industry to be made by the party with superior information potentially allows the regulator to effectively achieve its goals. In such a situation, the prices are set by the regulated firm within boundaries agreed with the regulator. On the other hand where the regulator has a high level of information about the regulated industry, it gives it more flexibility in deciding between the use of command-and-control and delegated forms of regulation. It can also decide to employ a combination of both.

Sappington argues that the higher the resources of the regulator, the higher the regulator's ability to develop and implement a comprehensive set of regulations to cover a greater percentage of the regulated industry's activities. Thus a regulator with limited resources is more likely to engage in partial regulation in an attempt to economise on resources. It would limit itself to regulating only a specified aspect of the industry's activities, e.g. the financial administration of the firms in the industry, instead of all of the administrative, technical and operational activities of the firms.

He argues moreover that, the quality and quantity of human resources available to the regulator relative to that of the regulatee, together with the institutional environment, is a factor in determining the commitment ability of the regulator. This is the ability to promise financial reward for desired performance to the regulatee or threaten sanctions for undesired behaviour. This in turn affects the independence of the regulator and the perceived credibility of the regulatory process.

This argument is supported by Levy and Spiller (1994) who also argue that the institutional endowments of a regulator affect the credibility and effectiveness of the regulatory framework. This also affects the motivational posture of the regulatee i.e. how the regulatee responds to the imposition of regulation. In the view of Baldwin and Black (2008), the firm has a choice between being content with regulation, and as such accommodating/capitulating, and resisting, game playing, litigating or disengaging from regulation where appropriate (Baldwin, 1985; Fenn and Veljanovski, 1988; Veljanovski, 2010). In effect, the quality of resources of the regulator would affect the regulatee's perceptions about the independence of the regulator.

Assuring the independence of the regulator is the first step to shielding it from potential regulatory capture (Boehm, 2007). Becker (1983) argues that interest groups invest in influencing the political process and the outcomes depend on the relative pressures exerted. He argues further that the structure of taxes, subsidies and political favours are all a function of the concessions made to different interest groups competing for political favour which inevitably

influences the regulatory design process and the relationship between the regulator and the regulatee.

For instance, a firm could invest in an attempt to gain regulation that favours it or minimise the impact of unfavourable regulatory outcome (Stigler, 1971). Veljanovski (2010) follows the line of argument of Sappington (1994) by suggesting that the ability of the firm to gain from strategic behaviour is a function of the form, function and scope of regulation. These in turn are influenced by: the structure of the industry; the level of technological development in the industry; and the existing regulatory framework, including the complementary control instruments. Crucially, Veljanovski (2010) argues that the quality of human resources available to industry relative to that of the regulator would determine the extent to which firms can manipulate the regulator. It can be argued, therefore, that one response to reducing the possibility of firms deceiving the regulator is for regulatory bodies to hire experts and industry specialists, to improve the quality of human resources.

According to Tullock (1967, 1980) the unproductive utilisation of the political process to achieve economic rent in the form of 'rent-seeking' by special interest groups (Tollison, 1998) generate inefficient outcomes. Laffont and Tirole (1991, 1993) also utilises a Principal-Agent model to explain why in the presence of information asymmetry, regulatory capture could occur. The regulator, they argue, could collude with the firm and obtain rent by hiding information about the true nature of the firm from the state (the principal) if the firm stands to benefit from the retention of information.

Laffont and Tirole's (1993) arguments can be utilised to shed light on the relationship between firm managers, auditors of firms, and the other stakeholders of the firm in terms of information management. In the context of this study, the existence of these incentives might suggest that without proper monitoring, club auditors might compromise the integrity of the financial statements issued by clubs by colluding with club managers.

Whilst capture theory might not be considered a good general view of regulation today (Veljanovski, 2010), it can be argued that regulatory capture may still be relevant in certain industries, including football. Since the association is a membership body, and the clubs are the association, the association and the clubs are closely inter-related. Thus the potential for regulatory capture to exist is high. By not explicitly discussing the causes of regulatory capture Sappington's (1994) framework could be considered limited to some extent. However, he suggests that where the regulated firms can easily influence the tenure of office of the regulator, it undermines the commitment ability of the regulator, and as such the independence of the regulator. In such a scenario it could be argued that the environment for the existence of active or passive regulatory capture might be created. Likewise, Baldwin and Black (2008) also only implicitly assume the existence of regulatory capture.

Sappington's framework is also limited by the implicit assumption that financial and physical resources are less important, compared with human resources, in determining the form and function of regulation. It could be argued that in a resource constrained environment, the availability of financial resources for regulatory design and implementation cannot be taken for granted. In a

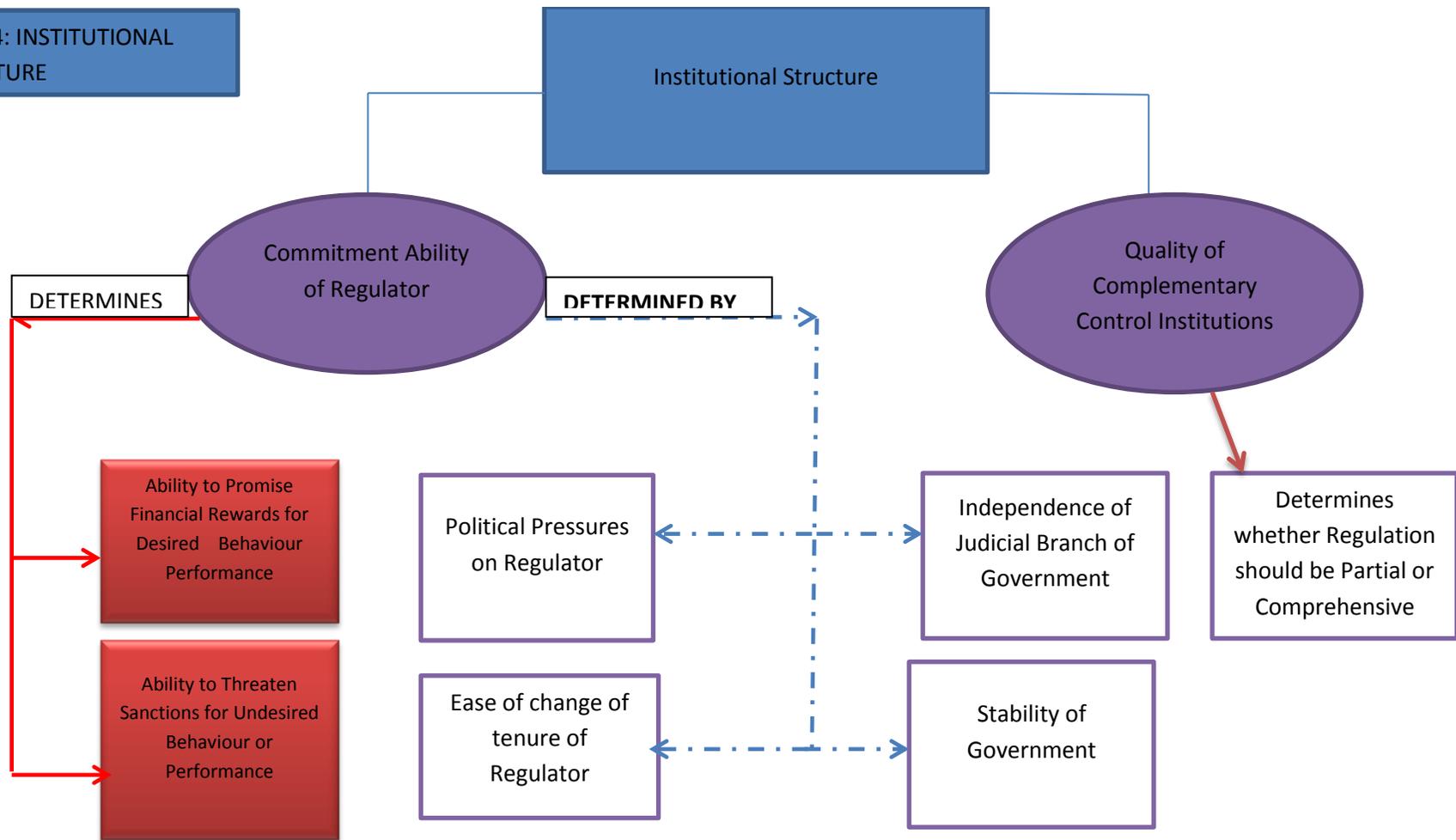
resource-constrained environment such as the one faced by professional clubs in Ghana, it becomes very important, to monitor and control the costs associated with regulatory design, and also maximise the use of financial resources.

## **2.4 THE ROLE OF INSTITUTIONAL ENVIRONMENT IN REGULATORY DESIGN**

There is convergence in the literature on the importance of the institutional environment on the regulatory design process. Figure 2.4 provides an overview of the institutional structure, which Sappington (1994) argues, is critical in determining the form and scope a regulatory framework takes. According to him the form of a regulatory framework is dependent on the political and legal infrastructure in the jurisdiction of the regulator and the stability of tenure of both the regulator and the government. Together with the quality of complementary control institutions, these factors represents the institutional environment in which the regulator operates; a key consideration in regulatory design.

These institutional factors determine the regulator's commitment ability which is the power to promise financial rewards for desired behaviour/performance, or threaten sanctions for undesired behaviour/performance. The regulator's commitment ability depends on the political pressures it confronts.

FIG. 2.4: INSTITUTIONAL STRUCTURE



According to Sappington (1994), it is also influenced by the extent of consumer power in determining the regulator's tenure in the short run, the strength and independence of the judicial branch of government, and the stability of government over time. Where the regulator has limited commitment ability, it loses its power to influence firm behaviour, undermining the success of regulatory policy by severely limiting the scope of regulation. In extreme cases limited commitment ability on the part of the regulator makes regulatory design baseless.

Sappington (1994) argues that a country's legal system, private-rule making bodies and other governmental rule-making bodies, all serve as complementary control instruments that affect the design of regulatory policy. These include the country's judicial service, tax authorities, social insurance authorities, registrar of companies, the sector ministry responsible for the industry in question, and self-regulating professional bodies such as the Medical Association, Bar Association and the Chartered Institute of Accountants. The existence and effective functioning of these other bodies, which also control and regulate certain aspects of the firms' operations, are a necessary condition for the proper pursuit of more targeted, partial and non-comprehensive forms of regulation by the primary regulator.

It can be argued that in the context of this study, if the tax and social insurance authorities, for instance, are effective in ensuring that football clubs comply with tax and social security laws within a country, the financial regulator of that industry would not have to concern itself about firms having overdue tax and

social security payments. Similarly, an effective audit culture would ensure that football's financial regulators had confidence that the audited financial statements of firms conform to the true state of affairs of firms within that industry, and that it effectively plays its stewardship role (Sarpong and Gary, 1988), rather than having concerns over attempts by firms to engage in creative accounting, to 'game' the regulator (Veljanovski, 2010).

The importance of institutional factors in regulatory design has been well discussed in the literature. For instance, the early writers on the positive theories of regulation all incorporate politics into the regulatory design process, and argue that resource and institutional constraints are found in any political marketplace (Peltzman, 1975, 1989; Posner, 1971; Stigler, 1971). The creation and outcome of the regulatory process are the result of political and legal process and that its implementation invariably generates winners and losers depending on the extent of strategic 'gaming' at play. The general implication of these theories is that the beneficiaries of the imposition of regulation are not always those who are meant to be protected under the public interest arguments for regulation. They are thus sometimes referred to as the 'interest-group' theories of regulation (Boehm, 2007).

More recently, Baldwin and Black (2008) have discussed the importance of the institutional environment of both the regulatee and the regulator for the form that regulation takes. They argue that the institutional environment of the regulatee, which determines its motivational posture is itself influenced by issues such as the relationship between the individual firm's internal goals and the demands of regulation. Other determinants include the means of imposition

of regulatory norms and the perceived fairness of the regulatory regime. On the other hand, the institutional environment of the regulator is influenced by the existing political and legal infrastructure, the resource distribution amongst various stakeholders, and the norms regulating conduct.

## **2.5 INDUSTRY CONDITIONS AND REGULATION**

Sappington (1994) provides a very comprehensive discussion of the importance of industry conditions on the regulatory design process. Sappington (1994) argues that the conditions within an industry (which determine the production techniques adopted, the nature of the products of the industry, the consumer demand and the structure of information) would determine the form and scope of regulation therein (see Figure 2.5). Thus, even where the objectives, resources and institutional environment are the same within two different jurisdictions, differences in 'circumstances' in the industries concerned can shape the form of the regulation imposed (Baldwin and Black, 2008).

According to Sappington, the production technology adopted would be determined by the existence or otherwise of economies of scale in production. This would determine whether the entire industry output can be efficiently supplied by one producer (a monopolist); a few working together in a coordinated cartel group (oligopolists); or a large number of suppliers. This might explain, for instance, the different number of clubs observed in different leagues around the world.

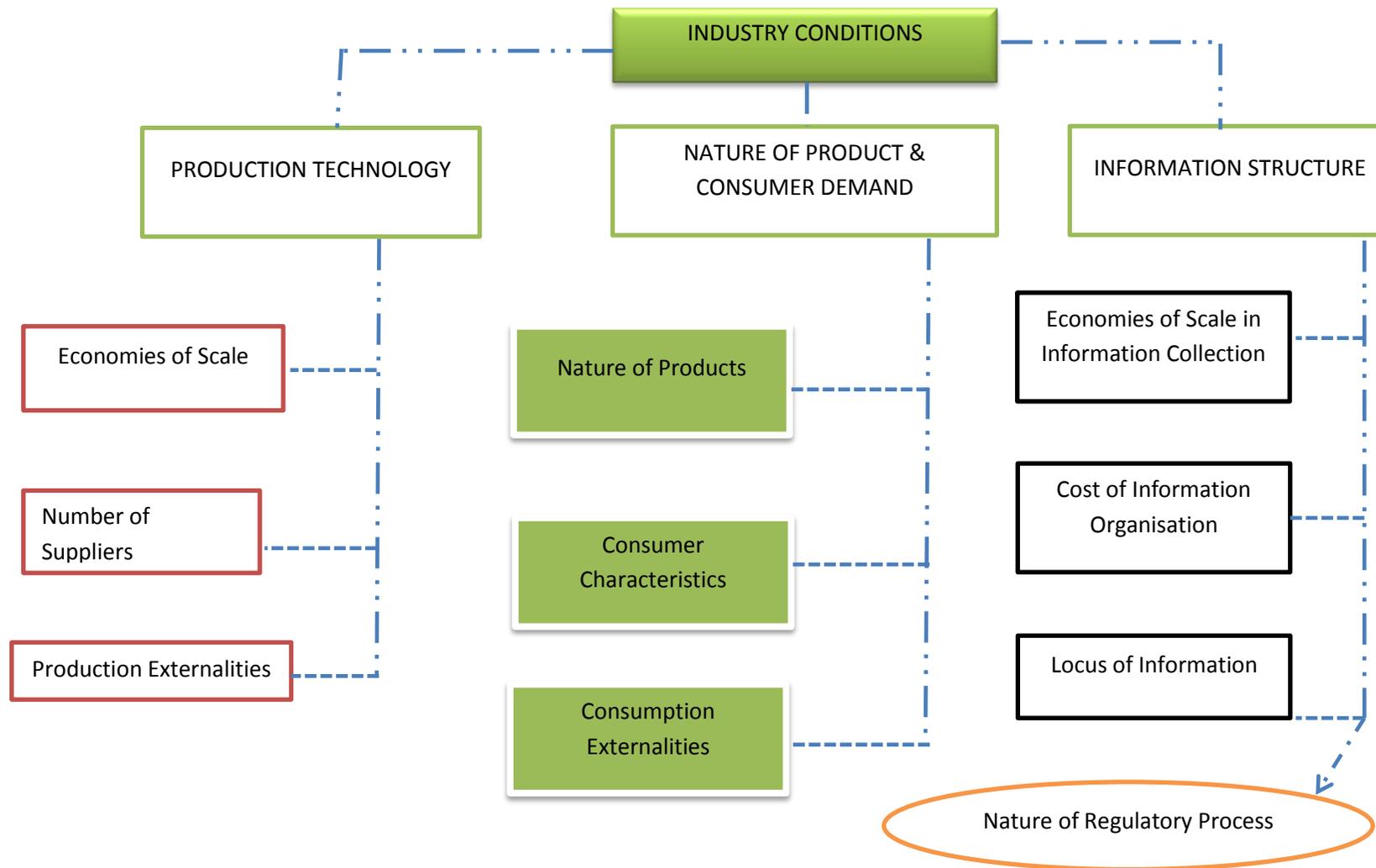


FIG. 2.5: INDUSTRY CONDITIONS

This would effectively determine the role of competition rules in that particular industry. For instance, in an industry where there is joint-production of the product by a group of actors, such as in the football industry (Hamil and Chadwick, 2010), cartel-like behaviour is inevitable and there may be little room for anti-competition regulations. Thus the entry into and exit from an industry can be regulated depending on the production technology resulting from the existence of economies of scale.

Where production externalities exist in an industry, the social cost of production might exceed the private cost of production (negative externalities) or the social benefits of production might exceed the private benefits of production (positive externalities). In a situation whereby external costs are generated through production, a more than socially efficient level of the product is supplied, with the reverse holding true for external benefits (Budzinski, 2012). In such a situation there is a role for a regulator to attempt to internalise the external benefits/costs, either by compensating the generator of the positive externalities, or by sanctioning the agent generating the negative externalities.

This is to allow for the socially efficient levels of the product to be produced. Thus government regulation that encourages subsidies to football, for instance, can be justified on the basis of the output of the industry generating external benefits to society.

The nature of the product or service supplied by the particular industry would also determine the scope, form and function of regulation in the industry, i.e. it would determine whether the function of the regulation is to inform consumers

about the product or to ensure that input, process or output standards are achieved (Brunnermeier et al., 2009; Llewellyn, 1999; Sappington, 1994). This would also depend on the characteristics of the product. Llewellyn (1999) argued that the difference between financial products, and other goods in general, and the different incentive structures faced by financial services firms, requires the industry to have regulation markedly different from that in the general goods market.

Brunnermeier et al. (2009) also suggested that banks trade amongst themselves more than firms in other industries, resulting in higher inter-connectivity. This in turn increases the risk of loss in assets of other banks who have lent money to the failing bank, creating a panic that can cause depositors of other banks to withdraw deposits (Baltensperger and Dermine, 1987; Bhattacharya and Jacklin, 1988; Diamond and Dybvig, 1983). These negative externalities suffered by banks might result from informational contagion effects, since as one bank fails it cast doubts on the abilities of banks of similar size and characteristics to meet service requirements.

According to Sappington (1994), demographic and economic characteristics of the consumers also affect the form of regulation that is necessary to ensure that the objectives of the regulator are achieved. For example, the consumption of products like medicine, alcohol and tobacco by children and pregnant women is generally regulated differently from that of the wider population. Consumption of products like vaccines generates external benefits/costs and there is the need for regulation to ensure that these consumption social benefits/costs are internalised.

Where economies of scale in information collection and dissemination also exist in an industry there is the potential for regulation to limit the cost of information acquisition. A central authority that performs the role of information provider is allowed in these circumstances to collect the information that would have been costly for individuals in the society to obtain. Where industry specific information is possessed by many different agents within an industry, the regulatory process would have to be more participatory than in a situation where the regulator possesses most of that information. The rule-making process would be better served, and the objectives of regulation more likely to be achieved, if an open regulatory process is adopted where the regulator does not possess the majority of the information in the industry (Sappington, 1994).

The importance of industry conditions in regulatory design is a feature of Sappington's formulation which is noticeably absent from many of the other frameworks and theories reviewed (e.g. Baldwin and Black, 2008; Becker, 1983; Ehrlich and Posner, 1974; Levy and Spiller; 1994; Stigler, 1971). In the context of this study, Sappington alerts us to the important role that football industry-specific conditions and the institutional environment will play in determining the form and scope of the Ghanaian football financial regulation that this study is concerned with, making his framework a more relevant conceptual framework for the study.

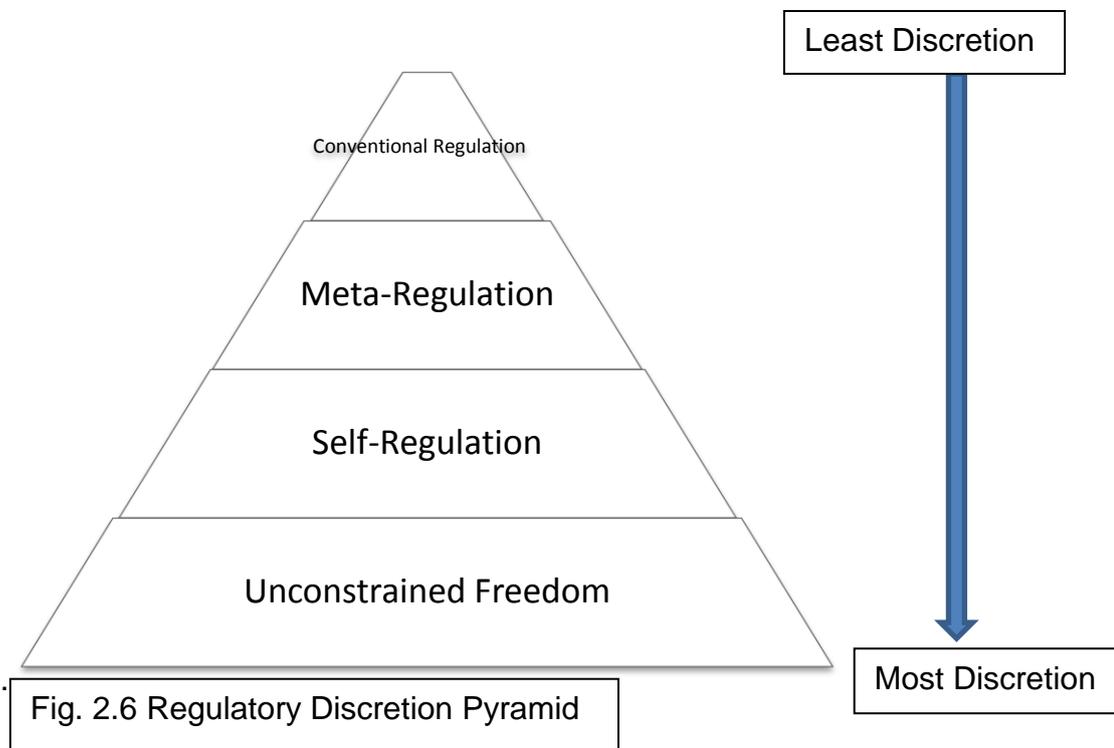
## **2.6 THE SCOPE AND FORM OF REGULATION**

According to Sappington (1994) the varied extent of regulatory oversight and control implies that regulation can be partial, merely suggesting guidelines for a small subset of activities of firms in the industry (see Fig. 2.1). Examples of these are sometimes found in the pharmaceuticals industry where the regulator concentrates on defining the drug content or quality whilst allowing the firms to determine the production process and pricing policy. It can also be comprehensive in scope, imposing strict rules on all relevant activities of the firms being regulated.

The form of regulation refers to the regulatory design and enforcement procedures, the locus of decision-making in the regulatory arena, the nature of regulatory rules (Sappington, 1994), and the regulatory governance structure (Levy and Spiller; 1994). Regulatory design could be centralized in a command-and-control fashion, where the detailed actions to be taken by the regulatee are dictated by the regulator (see Fig. 2.1). Alternatively, it could be incentive-based where the realized performance of the regulatee is compared with established targets and goals, and the firm is rewarded accordingly in a delegated decision-making fashion. Whilst Baldwin and Black (2008) argue that the choice between primary and delegated legislation is a function of the type of governance structure in a given country, Scott (2010) suggest that it is determined by the distribution of resources, amongst state and non-state actors in the regulatory space (Walters and Hamil, 2013). These arguments, put together are not significantly different from Sappington's views on the matter.

Sappington argues that the resources available to the regulator influence the level of information available to the regulator, and in effect the locus of information within the regulatory process. Where the regulator has limited information relative to the regulatee, delegated decision-making would be superior to command-and-control forms, which in these circumstances are ineffective. It is not only the decision-making that could be delegated, according to Sappington. The primary regulator in a country, usually Government, could also delegate the rule-making authority to a third party or substitute regulator, adopting a meta-regulatory approach (Coglianese and Mendelson, 2010). The third form of design is referred to as potential regulation in which no restrictions are imposed on the regulatee until the firm's performance is adjudged, ordinarily by consumers, to be unsatisfactory according to some pre-specified criterion.

Several other writers have discussed the choice between primary regulation and other forms of regulation. Figure 2.6 is the Regulatory Discretion Pyramid (RDP) of Coglianese and Mendelson (2010) which provides a categorization of the level of discretion afforded the regulatee in determining the shape and content of its internal control systems. This categorization differentiates between unconstrained freedom, self-regulation, meta-regulation and conventional command-and-control regulation.



Essentially the movement down the RDP involves the primary regulator giving more discretion to the target of regulation. Thus, the bottom of the pyramid is a situation of unconstrained freedom where the target of regulation has the most discretion and may choose not to regulate itself or conform to regulation. Self-regulation refers to an approach in which the regulatory target imposes command and consequences on itself resulting from the target and the regulator being the same entity (Coglianese and Mendelson, 2010). An example would be the regulation imposed by say, The Institute of Chartered Accountants of Scotland (ICAS) on its membership who are expected to conform in exchange for specified benefits. Non-conforming members are sanctioned where appropriate.

Hutter (2006, pp. 215) refers to meta-regulation as “the state’s oversight of self-regulatory arrangements”. Where an outside regulator intentionally induces self-regulation from targets it is referred to as meta-regulation. Others have referred to this process variously as enforced self-regulation (Braithwaite, 1982), mandated self-regulation (Bardach and Kagan, 1982), or regulating the regulators (Parker, 2002). Meta-regulation provides rewards and recognition for those who opt for self-control (Nash, 2002), and/or it explicitly threatens to sanction firms or entities that do not conform. Meta-regulation allows for critical self-evaluation and greater reflexivity by the regulated firm (Parker, 2002) and therefore places the responsibility for regulation on the firms themselves, subject to external scrutiny. At the top of the pyramid is conventional regulation which attempts to define in detail what the regulatee could or could not do, leaving it with little or no discretion.

Perrow (2000) agrees with Sappington that where firms have more information about the problems of the industry than any regulator could foreseeably obtain self-regulation and meta-regulation, which incorporates forms of delegated decision-making, may be superior to conventional regulation. In the same vein self-regulation and meta-regulation may be a better choice in situations where the industry is heterogeneous, like the football industry (Walters, 2007), or when the problem or potential problem is also not well understood.

Even proponents of self-regulation and meta-regulation (Coglianese and Lazear, 2002; Coglianese and Mendelson, 2010) admit that the challenge with

both forms of regulation is that target organisations need to appreciate the importance of self-regulation and also have the skill and personnel, to not only develop an effective internal regulatory system, but also to implement and monitor its success, as there is a risk that members may abuse the self-discretion offered them. Also, even though private standard setting facilitates the deployment of industry expertise, it could lead to businesses shaping the standards to suit their interest (Mattli and Buthe, 2005).

In the context of this study, discussions on meta- versus self-regulation places into context the relationship between the supra-national regulatory frameworks of organisations like FIFA, UEFA and CAF, vis-à-vis the attempts by national associations like Ghana to develop self-regulatory models for the financial management of their member clubs.

### **2.6.1 Principles versus Rules-Based Standards**

The form of regulation also includes the standards or rules around which a regulatory regime is organised and these are central to all regulatory regimes (Hood et al., 2001; Scott, 2010). Every efficient regulatory regime should be able to identify, detect deviation from, and provide a mechanism for correcting deviation from standards. According to Diver (1983), a standard should be transparent to the extent that it is easily comprehensible to its audience and easily applied to its intended circumstances. In developing regulatory standards therefore, a choice needs to be made between principles-based and rules-based standards (Scott, 2010).

Each type of standard setting has its advantages and disadvantages, as evidenced by recent accounting scandals (Sama and Shoaf, 2005). For example, while the 2008 bank failures have been blamed by some on the use of broad principles or standards instead of detailed rules as the basis of the regulatory regimes (Scott, 2010), rules-based standards were seen by others as contributing to the collapse of corporate giants like Enron (Ball, 2009). It is argued that very detailed standards give little room for creativity and might lead to a 'ticking of the boxes' mentality (McBarnet and Whelan, 1991). They have argued quite validly that detailed standards might be followed to the letter but at the same time 'evade the spirit and undermine the objectives' of the standards.

These challenges with focusing on one type of standards have encouraged regulators to adopt a combination of both rules and principles-based standard in a single regulatory framework, depending on the objectives of the regulation. For instance, the UEFA CL and FFP regulation combines both rules and principles-based standards to achieve regulatory objectives.

### **2.6.2 Enforcement of Regulation**

Without detailing out what specific regulatory enforcement models are necessary to achieve compliance, Sappington (1994) admits that the regulatory design process also includes the enforcement mechanisms adopted by the regulator. Effective enforcement is vital to the successful implementation of legislation as unenforced regulation rarely fulfils its objectives (Gunningham, 2010).

According to Simpson (2002) deterrence emphasises a confrontational style based on the argument that given the right level of severity of punishment, the firm and other potential violators would be deterred from future violation. In such an instance one needs to be able to detect, establish and personalise wrongdoing for this strategy to be effective.

The deterrence strategy is built on the premise that business corporations are 'amoral calculators' (Kagan and Scholz, 1984); who would not conform unless they are required to do so by law or unless non-compliance would be detected and punished. General deterrence is based on the premise that firms would learn from the punishment suffered by others and desist from similar conduct. Specific deterrence, however, assumes that a company when punished would attempt to avoid similar punishment in future (Baldwin and Anderson, 2002; Simpson, 2002).

On the other hand, a compliance strategy emphasises the dichotomy between cooperation and confrontation or between conciliation and coercion (Hutter, 1993; Shapiro and Rabinowitz, 1997). Threat of enforcement remains so far as possible, in the background; to be used only if attempts to encourage compliance fail (Hawkins, 1984). Both deterrence and compliance strategies have their weaknesses and strengths. Gunningham (2010) cautions that where deterrence is over-used it could create a culture of 'regulatory resistance' and could lead to some off-setting responses by the regulatee (Levy and Spiller, 1994), depending on the motivation of a firm's leaders.

However, a strategy of advice and persuasion could also degenerate into ‘intolerable laxity’ and fail to deter those who have no intention of complying which could lead to ‘negotiated non-compliance’ (Gunningham, 1987, 2010). He argues that where firms in an industry benefit from generally good corporate leaders, a compliance strategy, which is more incentive-based and involves delegated decision-making, would be more effective than an adversarial approach built on a regulatory logic of deterrence (see, for example, Fehr and Falk, 2002)

### **2.6.3 Regulatory Enforcement Models**

The obvious limitations of compliance and deterrence strategies as stand-alone strategies have led to the development of responsive regulation (Ayres and Braithwaite, 1992; Braithwaite, 2002); smart regulation (Gunningham, 1999 and 2010; Gunningham and Grabosky, 1999); risk-based regulation (Black, 2005); regulatory craft (Sparrow, 2000) and really responsive regulation (Baldwin and Black, 2008).

Unlike a pure deterrence or compliance approach, responsive regulation assumes virtue on the part of the regulatee and assumes further that the regulator also responds in a cooperative manner. It is modelled on the “enforcement pyramid” (see Figure 2.7) developed by Ayres and Braithwaite (1992). At the bottom of the pyramid, firms are advised and persuaded to conform and an escalation up the pyramid towards a deterrence-oriented strategy only occurs if there is non-compliance. The regulator only responds

with punitive/coercive strategies when the expectations are not met by the regulated (Gunningham, 2010).

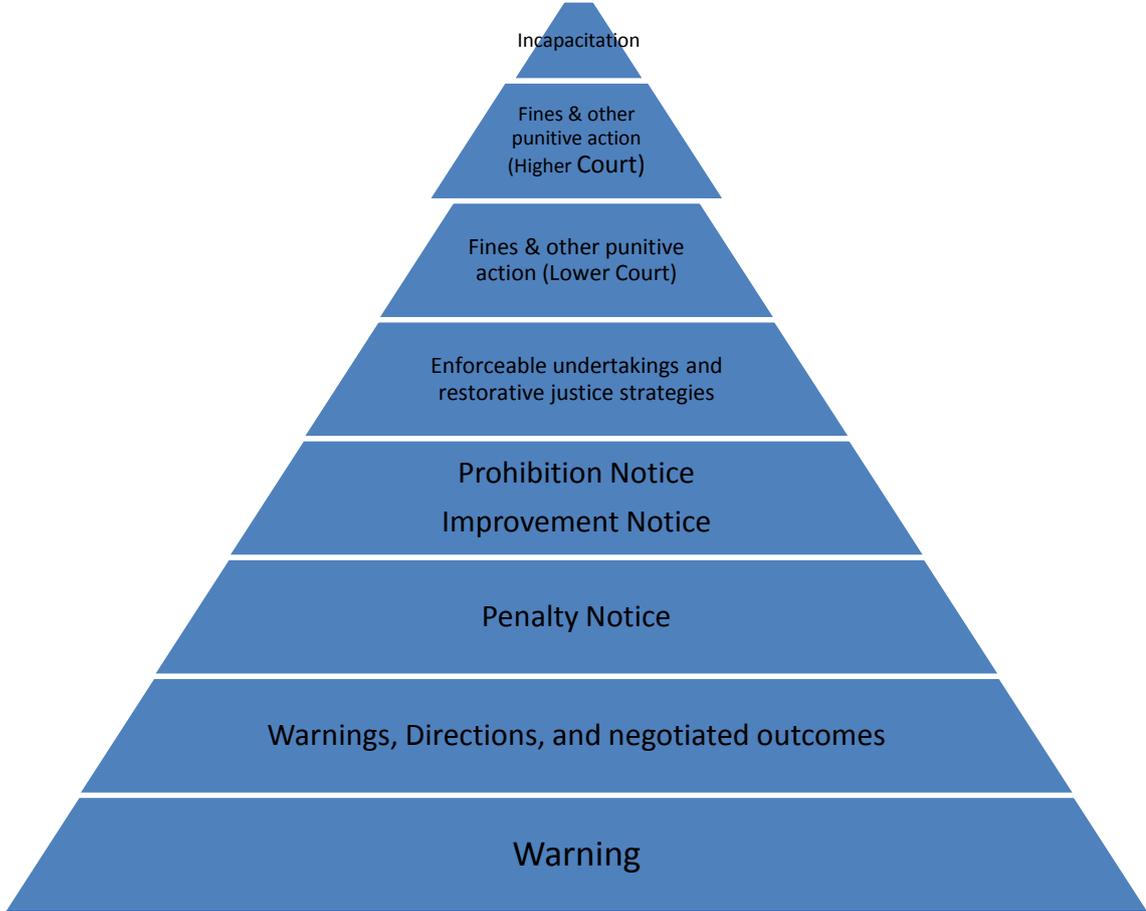


Figure 2.7: Enforcement Pyramid

Proponents of responsive regulation see the judicious use of a mix of compliance and deterrence as the likely optimal strategy. It also rewards those who go beyond mere compliance. According to Scott (2004), the strength of the enforcement pyramid is the ease with which one could connect its theoretical construct to concrete and practical experience.

One key problem with responsive regulation, however, is that the model is weak in dealing with complex and networked regulatory frameworks, as the step-by-step escalation up and down the regulatory pyramid might be inappropriate in such cases, and might sometimes result in unintended consequences (Baldwin and Black, 2008; Haines, 1997). Pyramidal response also depends on the level of genuine dialogue between regulators and the regulated (Gunningham, 2010; Parker, 1999; Scott, 2004). As such, in an industry where it is impractical to achieve sufficient levels of repeat interaction between the regulators and the regulatee the applicability of the enforcement pyramid would be limited.

According to Gunningham (2010), the difference between responsive and smart regulation, is that the smart regulation pyramid conceives of the possibility of regulation using a number of different instruments and implemented by a number of parties. The preferred role of government under smart regulation is to create the necessary pre-conditions for other parties to assume a greater share of the regulatory burden rather than engaging in direct intervention. This would produce better regulation (see Baldwin, Cave and Lodge, 2010; Gunningham and Grabosky, 1998).

In risk-based models the targeting of regulation is based upon an assessment of the degree of risk associated with an entity (Black, 2005; Hampton, 2005). The level and intensity of regulation is increased depending on the level of risk generated by the entity. Critics of risk-based models, including Gunningham (2010), point to the likelihood that risk-based models may end up

concentrating on a few large risks rather than many lower level risks. Moreover its effectiveness also depends on the level of sophistication of the risk analysis done.

The concept of regulatory craft requires regulatory enforcers to identify and remedy important problems (Sparrow, 2000). In effect, regulatory craft is similar to risk-based models as both attempts to reduce risks and eliminate hazards. This would seem to suggest that regulators should be able to determine what instruments of regulation are best able to achieve compliance, know when to use them and develop a system for recognizing when tools are inadequate in order that replacements could be brought forward (Sparrow, 2000).

The focus of regulatory craft on determining important regulatory problems and fixing them to the exclusion of 'unimportant' problems assumes that regulation could always be parcelled into problems and projects. Baldwin and Black (2008) argue further that responsive regulation, smart regulation, risk-based regulation and regulatory craft only concentrate on dealing with the compliance response of a regulatee, failing to take into consideration the attitudinal settings of the regulatee and the institutional environment within which the regulator operates. Hence they argue that changes in the priorities, circumstances and objectives of the regulator are all crucial to achieving regulatory goals. It is precisely these issues that their model of a 'really responsive regulation' seeks to be responsive to. Appendix 1 provides a general critique of the various regulatory enforcement models provided by

Baldwin and Black (2008) as a prelude to their discussion of 'really responsive regulation'

#### **2.6.4 The Role of Incentives in Regulatory Compliance**

Oliver (1980) draws attention to the distinction between negative and positive incentives. Whilst rewards are considered as positive incentive, penalties and sanctions are negative incentives, provided to induce behavioural change. Hilbe and Sigmund (2010) on the other hand point out differences in effect of negative and positive incentives in achieving cooperation in a population. They argue that the best policy to turn a population of non-cooperators into a population of cooperators is to provide rewards for those who choose to cooperate and once the majority become cooperators, the few who defect could then be punished, in a responsive manner (Ayres and Braithwaite, 1992).

According to Levy and Spiller (1994), regulatory incentives include the rules governing pricing, cross or direct subsidies, entry, access and interconnections within the regulated industry or organisation. Similarly, Brunnermeier et al. (2009) suggest that the range of instruments available to the regulator to ensure regulatory compliance includes rules, authorisation, establishing principles and guidance, monitoring, intervention, sanctions, compensation and mandatory disclosure requirements. For instance, financial incentives are known to motivate firms to comply, with tax regulations (Feld and Frey, 2007), even though Fehr and Falk (2002) suggest that monetary

incentives might be counter-productive and reduce the performance of agents or their compliance with rules.

Levey and Spiller (1994) points out the negative effects of prescriptive regulations, penal sanctions, and administrative enforcement on productivity, as well as on the responses of the regulated. They also draw attention to the importance of regulatory incentives on firm behaviour. These issues are critical in developing an incentive-based financial regulatory framework for Ghanaian football.

An incentive-based regulatory framework such as this study proposes would have to deal with the theoretical challenges identified by the regulatory enforcement models discussed in section 2.6.3, in terms of the effect of different types of incentives on motivation. For instance, an incentive-based model might have to assume that leaders in Ghanaian football are good corporate leaders whose current financial management choices might have been influenced by difficult economic conditions.

### **2.6.5 Strategic Use of Regulation**

Informational asymmetry generates both market and regulatory failure as the regulator could sometimes be threatened by a regulated monopolist, especially where its commitment ability is weakened by political pressures or by the lack of job security (Sappington, 1994). On the other hand Veljanovski (2010) argues that in a competitive environment the regulator sometimes has more information than individual members of industry, thus limiting the ability

of individual firms to manipulate information and avoid compliance with regulation.

Sometimes even the best intentioned regulators cannot be relied on to always act properly. According to Veljanovski (2010) threat of delay in approval is sometimes used by regulators to get concessions from a regulatee, especially in merger situation where there may be particular time limits. Publicity and public opinion which could have adverse reputational effects on a shamed company could also be used to obtain compliance from firms. The existence of strategic behaviour by regulators suggests that, within any regulatory framework, parties affected by regulation should have the right of review due to concern over the abuse of regulators' unfettered discretion. Concerns may, however, arise over the possible use of the review process by firms to unduly frustrate the regulator, thus weakening the effectiveness of regulation.

This study attempts, in part, to develop a model of financial regulation which is specific to a particular group of clubs in the football industry, in order to modify their financial management practices. In the context of this study, the discussions on the use of strategic behaviour by the regulator and the regulatee is quite relevant in that the ability of Ghanaian football's financial regulator to achieve regulatory compliance would be dependent on its ability to deal with the use of strategic behaviour by clubs. On the other hand, there should also be in-built mechanisms within the regulatory framework to deal with potential abuses of the process by individuals working for the regulator.

## **2.7 CONCLUSIONS**

This study aims, in part, to develop a financial regulatory framework to deal with the specific institutional challenges within a particular industry in Ghana. The regulatory framework to be developed is thus specific to Ghana, and moreover applicable only within the institutional context within which Ghanaian professional football clubs operate. Thus the concept of context specificity in regulation that revolves around peculiar industry conditions, institutional structure, and the availability of human, financial and physical resources is critical to the development of the framework.

In the context of the study, Sappington's framework provides a powerful framework for the analysis of how financial regulation serves to control aspects of the financial interaction amongst clubs e.g. in terms of player transfer and its payments; revenue distribution from the joint-production of a football game; and joint-sale of league rights revenue. The framework could also be utilised to rationalise a football financial regulator's attempt to encourage investment in youth and infrastructure development. This according to Sappington would be considered as an attempt to provide incentives for new investment in industry performance and development. As an objective, Sappington's analysis also suggests that Ghanaian football's financial regulator could aim at regulating the pricing decisions of clubs to protect consumers and ensure the long term interest of fans as consumers. As discussed earlier, the other theories are limited in their discussions of the objectives of a regulator.

Sappington's framework, crucially, recognises the possible conflicts that might exist between various regulatory goals, which in the context of football, revolves around the conflict between achieving sporting and financial goals. The framework provides a powerful analytical tool for determining the sequencing of the achievement of both financial and sporting objectives, which need not necessarily be achieved simultaneously. Importantly, Sappington's framework also recognises the limitations placed by the resources available to the regulator on the ability of the regulator to achieve its regulatory objectives. In the context of the study, the financial environment is characterised by limited resources for both the regulator and the regulatee, possibly limiting the ability of the financial regulator for Ghanaian football to adopt a comprehensive regulatory framework. Sappington's framework also alerts us to the crucial importance of the phasing of the implementation of football's financial regulatory framework.

Sappington's work could also be considered to be superior to the other theoretical frameworks discussed in this chapter in the sense that it provides a more detailed framework for assessing the form, the scope and the function of any regulatory framework. Importantly, the framework differentiates between command-and-control and incentive-based delegated regulatory systems. It combines aspects of traditional regulatory theories that focused on using deterrence and compliance to enforce regulation; the use of both positive and negative incentives to affect the motivational posture of the regulatee; and the importance of institutional and industry conditions for regulatory design.

Whilst Baldwin and Black's (2008) 'really responsive regulation' achieves a lot of convergence with Sappington's formulation, their lack of emphasis on the objectives of regulation and the importance of industry conditions makes it inferior as a comprehensive framework for regulatory policy design.

Despite its limited recognition of the critical role of: the cost of regulation in the regulatory design; the existence of regulatory capture which might affect the independence of the regulator; and the importance of financial and physical resources in the regulatory process, Sappington's framework is adopted as the theoretical basis of this study. The focus of Sappington's framework on the importance of the institutional structure, the industry conditions, the resources available to the regulator, and the objectives of the regulator as being the key ingredients in the design of a regulatory framework strikes consonance with the focus of the study on developing an incentive-based, context-specific regulatory framework for Ghanaian football. The model of financial regulation to be developed by this study would also deal with the limitations of the Sappington model identified.

## CHAPTER III

### RESEARCH METHODOLOGY AND METHODS

#### **3.1 INTRODUCTION**

This section discusses the philosophical foundations of research which explain the ontological and epistemological stance underpinning this study. It discusses the adoption of a mixed-method design and the specific qualitative and quantitative methods utilised in this study. It draws out the limitations of the research methods adopted and how these challenges were resolved.

#### **3.2 ONTOLOGICAL AND EPISTEMOLOGICAL CONSIDERATIONS**

##### **3.2.1 Positivism versus Interpretivism**

Table 3.1 provides an overview of alternative philosophical stances adopted by social science researchers and their implications for the choice of study methods.

The research question formulated by every researcher is a function of one's view about what constitutes reality (ontological position), what possible ways exist for knowledge about this reality to be gained (epistemological position), and how one could go about acquiring such knowledge (methodological position). This then invariably determines the plan (Design) and the procedures (Method) that could be used to collect that knowledge (Smith, 2010; Willig, 2008).

<b>Table 3.1: Ontological and Epistemological Considerations for Social Research</b>			
	<b>I</b>	<b>II</b>	Approach Adopted by this Study
<b>Ontological Position: View of Social Reality</b>	<b>Objectivism:</b> view social reality as something objective and measurable	<b>Constructivism:</b> Social reality as something constructed by people	<b>Pragmatism:</b> existence of both the natural or physical world and the social and psychological world
<b>Epistemological Position: Theory of Knowledge</b>	<b>Positivism:</b> follows a natural science model	<b>Interpretivism:</b> interpretive	<b>Critical Realism:</b> views current truth, meaning and knowledge as tentative and as changing over time
<b>Role of Theory</b>	Deductive Approach, testing of theory	Inductive Approach, generation of theory	Mixture of Inductive and Deductive
<b>Methodological Approach</b>	Quantitative	Qualitative	Mixed-Methods
<b>Source: Adapted from Spratt, Walker and Robinson (2004); Johnson and Onwuegbuzie (2004)</b>			

The epistemological position taken by a researcher is generally influenced by their ontological orientation: those with a Constructivist view generally take an Interpretivist position; those with an Objectivist view commonly align themselves to the Positivist position (Bryman, 2012; Grix, 2002). Positivists argue that there is an objective reality; singular and external to the research question under study; ultimately knowable and measurable (Atkinson, 2012). Thus the investigative approach of the Positivist research is characterised by control, replication and hypothesis testing (Gratton and Jones, 2012).

In contrast, the Interpretivist approach to research is a quest for subjective knowledge derived from Constructivist assumptions that ‘reality is a complicated and messy matter’ which cannot be studied without the

researcher immersing himself into the society in which the study is being conducted (Atkinson, 2012). For instance, trying to understand the perception of football business managers about the adequacy of regulation cannot be achieved without the researcher engaging the stakeholders in a discussion of their individual subjective lived realities.

### **3.2.2 A Pragmatic Approach to Research**

Purists from the two traditions argue in favour of an 'Incompatibility Theses' (Howe, 1988); arguing against the mixture of epistemological and ontological positions in any one research project. For the critical realist, however, pragmatism rejects the incompatibility thesis and offers methodological mixes that are able to help researchers provide answers to the numerous research questions that they are confronted with on a daily basis (Johnson & Onwuegbuzie, 2004).

For instance, in an attempt to develop an appropriate form of regulation for a particular group of people or entities, Sappington (1994) suggested that the context and the objectives of the regulator are critical. One would need to determine the extent of regulation existing in an industry and how the new regulation would affect, for instance the financial position of clubs. Whilst it might be difficult to objectively measure the extent of existing regulation, the effect of regulation on the financial position of clubs is, to a large extent, measurable. Adopting a purely positivist or Interpretivist approach would therefore be inadequate to answer the research questions.

The research objectives of the current study are varied, with some concepts measurable and others being defined in such a way as not allowing them to be reduced to quantities. Consequently this study adopts a pragmatic approach to the selection of methods, allowing it to combine particular qualitative and quantitative methods that are considered appropriate, at each stage of the study, to achieve the stated objective. This approach is based on a critical realist philosophical standpoint which views current truth, meaning and knowledge as being tentative and changing over time (Ackroyd and Fleetwood, 2004; Easton, 2010; Fleetwood, 2005; Johnson and Onwuegbuzie, 2004).

Critical realism is based on the assumption that social phenomena such as actions, texts, institutions have to be interpreted by starting from the researcher's own frame of meaning (Sayer, 2000). However, the world exists independently of our knowledge of it and as such social phenomena exists regardless of the way a researcher interpretes it (Easton, 2010; Fleetwood, 2005).

The general implications of these assumptions are that the methods of social science and natural science may have similarities and differences (Easton, 2010). Thus depending on what knowledge we seek to acquire, we can employ either the methods of social science, natural science or both. Sayer (1992) also argues that in order to be able to explain social phenomena, as this study seeks to do, we have to evaluate them critically, employing both positivist and Interpretivist approaches, which can be combined with little problem (Johnson and Onwuegbuzie, 2004).

### **3.3 METHODOLOGICAL APPROACHES TO THIS STUDY**

This section provides a contrast between the quantitative and qualitative approaches to research methodology and provides a rationale for the choice of a mixed-method approach to this study.

#### **3.3.1 Quantitative versus Qualitative Approach to Social Research**

The two traditional methodological approaches to research are the quantitative and qualitative approaches. These differ in terms of: their general orientation to social research; their epistemological foundations and their ontological basis. Thus they differ in their analytical objectives; the types of questions they pose; the types of data collection instruments they use; the forms of data they produce; and the degree of flexibility built into study design (Mack et al, 2005)

Quantitative analysis deals with directly measurable 'quantities' which can be converted into numerical values and statistically analysed to either confirm or refute a theory or hypothesis (Johnson & Onwuegbuzie, 2004; Atkinson, 2012; Smith, 2010; Gratton & Jones, 2012). In the context of the current study, quantitative methods could be applied to the analysis of the financial performance and position of football clubs to provide evidence of clubs' financial viability.

Smith and Manning (1982) suggest that qualitative research, on the other hand, is better suited for initial exploratory research into unknown or unfamiliar phenomena. It is useful for describing complex phenomena especially when

studying a limited number of cases in depth as is with the case in this study, with its focus on the rationale for regulation of football and football clubs in Ghana. It enables the researcher to develop concepts, conjectures, and interpretations empirically grounded in the investigated systems. It could be argued that qualitative approaches are more responsive to local situations, conditions, and stakeholders' needs than could be obtained through quantitative analysis.

It could also be argued that data collection and research questions are adjusted according to what is learned, as participant responses affect how and which questions researchers ask next. These are key features of predominantly semi-structured methods such as in-depth interviews, focus groups and participant observations. For instance this study utilises critical review and semi-structured interviews to achieve one of the study's key objectives, i.e. the development of a context-specific model of financial regulation.

### **3.3.2 The Choice of a Mixed-Method Approach to the Study**

The advent of mixed-method research strategies has shown that it is possible to combine what historically were seen as incompatible research methods in one research project, if it is the best way to answer the research questions posed. Proponents of mixed-method research believe that the choice between quantitative and qualitative methodological approaches is not an either/or issue, because both quantitative and qualitative research are important and that qualitative researchers should feel free to use quantitative methods and vice versa (see Johnson and Christensen, 2004; Tashakkori and Teddlie,

1998, 2008). They argue that differences in epistemological beliefs of a qualitative 'inquirer' and a quantitative 'investigator' should not inhibit each from adopting methods traditionally associated with the other's work.

Thus not only is it possible to mix quantitative and qualitative methods to answer the questions posed by the chosen research objectives, but it is also possible to mix philosophical views about knowledge. The epistemological position of the researcher therefore does not dictate what specific data collection and data analytical methods researchers must use (Johnson *et al.*, 2004).

Table 3.2, adapted from Creswell and Plano Clark (2007), shows the contribution of selected writers whose contributions are considered very important to the development of Mixed-Methods Research.

<b>Table 3.2: Contribution of writers to the development of Mixed-Methods Research</b>		
<b>Stage of Development</b>	<b>Authors (Years)</b>	<b>Contribution to Mixed Methods Research</b>
<b>Formative Period</b>	Campbell and Fiske (1959)	Introduced the use of multiple quantitative methods
	Sieber (1973)	Combined surveys and Interviews
	Jick (1979)	Discussed triangulating qualitative and quantitative data
	Cook and Reichardt (1979)	Presented 10 ways to combine quantitative and qualitative data
<b>Paradigm Debate Period</b>	Rossmann and Wilson (1985)	Discussed stances toward combining methods – purists, situationalists, and pragmatists
	Bryman (1988)	Reviewed the debate and established connections within the two traditions
	Reichardt and Rallis (1994)	Discussed the paradigm debate and reconciled two traditions
	Greene and Caracelli (1997)	Suggested that we move past the paradigm debate
<b>Procedural Development Period</b>	Greene, Caracelli and Graham (1989)	Identified a classification system of types of mixed methods designs
	Brewer and Hunter (1989)	Focused on the multi-method approach as used in the process of research
	Morse (1991)	Developed a notation system
	Creswell (1994)	Identified three types of mixed method designs
	Morgan (1998)	Developed a typology for determining design to use
	Newman and Benz (1998)	Provided an overview of procedures
	Tashakkori and Teddlie (1998)	Presented topical overview of mixed methods research
	Bamberger (2000)	Provided an international policy focus to mixed methods research
<b>Advocacy as Separate Design period</b>	Tashakkori and Teddlie (1998)	Provided a comprehensive treatment of many aspects of mixed methods research
	Creswell (2003)	Compared quantitative, qualitative, and mixed methods approaches in the process of research
	Johnson and Onwuegbuzie (2004)	Positioned mixed methods research as a natural complement to traditional qualitative and quantitative research
<b>Source: Creswell and Plano Clark (2007),</b>		

Johnson and Onwuegbuzie (2004) also develop a typology of mixed-method designs based on the two dimensions of sequencing and prioritization of qualitative or quantitative methods in the mixed-method design. The nine different designs which they obtained are summarised by Rudd and Johnson (2010) as in the second column of Table 3.2., which also includes the typologies developed by Terrell (2011).

<b>Table 3.3: Classification of mixed-method approaches</b>		
<b>Dimension</b>	Morse (1991); Johnson & Onwuegbuzie (2004); Rudd & Johnson (2010) Classification	Terrell (2011) Classification
<b>Equal-status concurrent designs</b>	QUAL + QUAN <b>QUAN + QUAL</b>	Concurrent Triangulation <b>Concurrent Transformative</b>
<b>Equal-status sequential designs</b>	QUAL → QUAN QUAL → QUAN QUAN → QUAL QUAN → QUAL	Sequential Exploratory Strategy Sequential Transformative Sequential Explanatory Strategy Sequential Transformative
<b>Dominant-status concurrent designs</b>	QUAL + quan <b>QUAL + quan</b> QUAN + qual <b>QUAN + qual</b>	Concurrent Nested Strategy <b>Concurrent Triangulation</b> Concurrent Nested Strategy <b>Concurrent Triangulation</b>
<b>Dominant-status sequential designs:</b>	QUAL → quan qual → QUAN QUAN → qual quan → QUAL	Sequential Exploratory Strategy Sequential Exploratory Strategy Sequential Explanatory Strategy Sequential Explanatory Strategy
<b>Source: Morse (1991); Johnson &amp; Onwuegbuzie (2004); Rudd &amp; Johnson (2010); Terrell (2011)</b>		

The claim that better understanding would be obtained because mixed methods offers strengths that ‘offset the weaknesses of separately applied quantitative and qualitative methods’ (Creswell, 2006; p18) have been challenged by critics such as Bazely (2004) and Terrell (2011) who suggest that ensuring validity in a mixed method design is no less a challenge as

controlling validity in a standard quantitative or qualitative research. For instance triangulation, as a technique of using quantitative and qualitative data to validate each other has been misused, according to Bazely (2004) and in any case does not assist validation as each data source must be understood on its own terms (Fielding & Fielding, 1986; Flick, 1992). There is also the potential for the inappropriate application of the sampling rules of one method to create distortions of the assumptions of the other method and invalidate these assumptions, for example, as a result of an attempt to meet expectations for generalisation of results from a predominantly qualitative approach.

Even in terms of analysis Bazely (2004) warns that attempting to 'quantitize' a qualitative theme in an attempt to integrate the data in a mixed-research strategy could create problems. Without discounting the relevance of the mixed-method strategy as a valid method for social science research he advocates that researchers need to take into account the assumptions underlying the methods of analysis being used to draw and present conclusions.

### **3.3.3 Mixed-Method Type Adopted For the Study**

These cautions in the use of the mixed-method strategy have all been taken into consideration in determining the methodological approach adopted by this study as summarised in Figure 3.1.

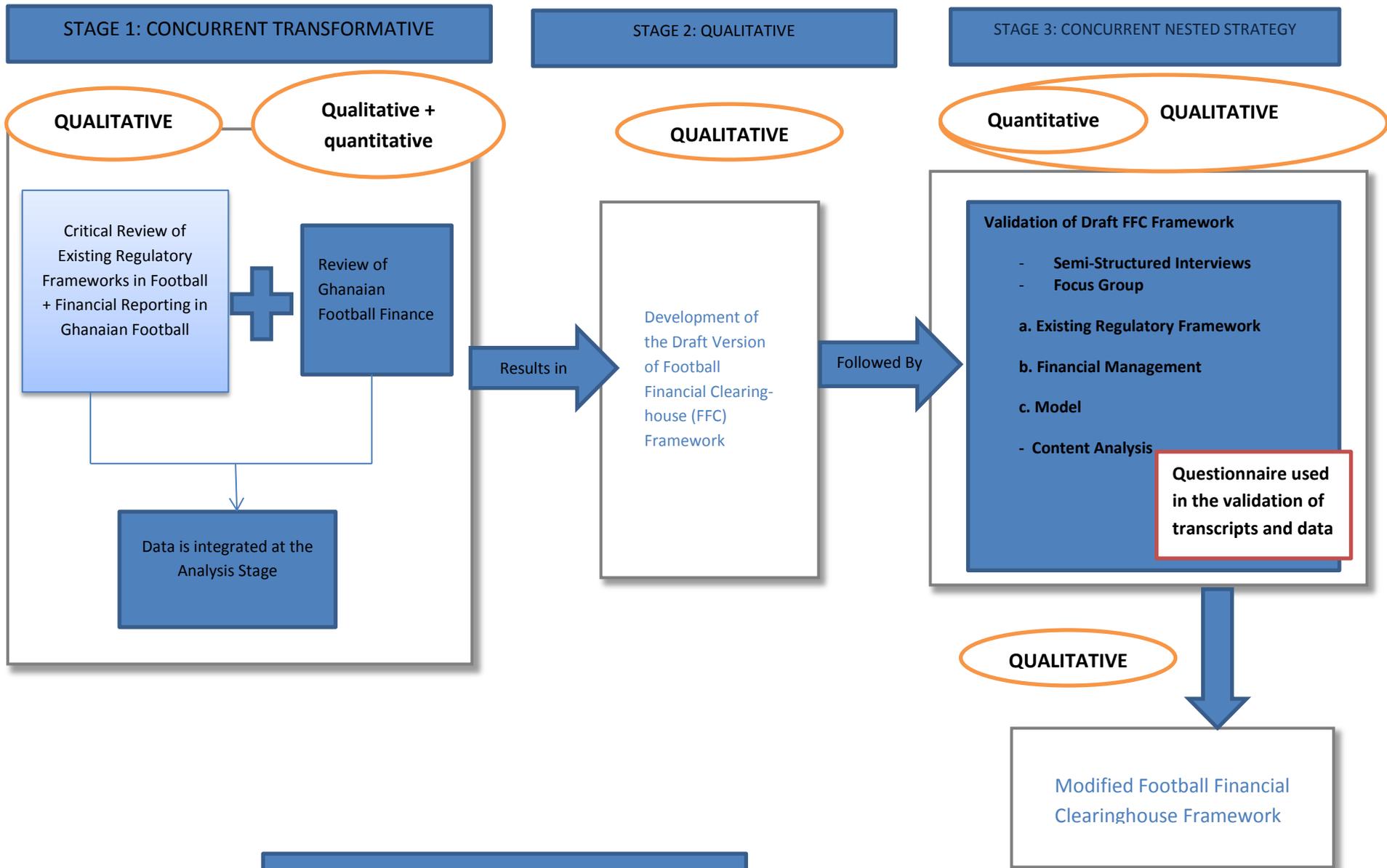


FIG 3.1: METHODOLOGICAL APPROACH

The study utilises some quantitative data analysis embedded in a predominantly qualitative design in an attempt to find answers to the research questions identified. In an attempt to find the mix of methods that best answers the question at hand the study adopts a pragmatic approach to method selection, influenced primarily by the critical realist epistemological position adopted. The predominantly qualitative approach to answering the research questions implied that the study did not need to statistically test pre-determined hypothesis.

The attempt to develop a context-specific incentive based framework for the financial regulation of professional football clubs meant that the researcher needed to allow the information obtained from the critical review of existing framework and the review of Ghanaian football finance to inform the process of developing a framework. Such a process which seeks to develop a framework for a defined constituent (Ghanaian professional football clubs) needed to be informed by all the information which could conceivably be obtained. This includes information on the financial reporting and performance of the clubs, information that could only be adequately and appropriately obtained through the quantitative analysis of the financial statements of the clubs over a given time period. Hence, this resulted in the inclusion of quantitative analysis within a predominantly qualitative study.

The study has proceeded in three distinct stages each with a different methodological approach. Stage 1 (see Fig. 3.1) utilises a Concurrent Transformative Strategy (Terrell, 2011) involving a predominantly qualitative

process of critically reviewing existing regulatory frameworks in football, done concurrently with a qualitative review of the existing financial reporting framework and a quantitative analysis of the financial performance of professional football clubs in Ghana. This strategy is informed by the choice of critical realism as the epistemological basis for the study which allows the researcher to choose the best methods that would help to answer the research question and objectives.

Stage 2 involves a purely qualitative process of utilising the results and analysis in Stage 1 to develop a draft version of the Football Financial Clearinghouse Model (FFCM<sub>1</sub>) which would subsequently be validated in Stage 3. The interrogation of the FFC framework adopts a Concurrent Nested Strategy which involves the application of some quantitative data collection and analysis process embedded in a pre-dominantly qualitative data collection and analysis process. The qualitative process involved the use of semi-structured interviews and focus group sessions to collect data on the existing financial regulatory framework; the financial management of professional clubs in Ghana and the clubs' perception of the FFC Framework.

The quantitative process involved the use of a Likert-Scale type questionnaire with closed questions for the purpose of validating the interview data transcription process and also to confirm some of the information obtain from the interviews. The end product of the three stages is the development of a modified version of the Football Financial Clearinghouse Model (FFCM<sub>2</sub>).

### **3.4 APPLICATION OF QUALITATIVE METHODS**

This section discusses the use of critical review, semi-structured interviews and focus groups as the main tools for qualitative data gathering. It also discusses the selection of research subjects, instrumentation and the procedures used in gathering the qualitative data for analysis. It discusses the ethical issues considered in qualitative data collection and how they were resolved. It discusses the processes of recording, transcription, coding and analysis of the interview data in this study.

The section concludes with a discussion of how the issues of researcher reflexivity and subjectivity, as well as validity and reliability which could potentially limit the generalizability of qualitative research findings were dealt with in this study.

#### **3.4.1 Selection of Specific Data Gathering Methods**

##### Critical Review

In order to facilitate the critical review of existing frameworks for financial regulation of football around the world, the following documents were obtained:

- FIFA Club Licensing Regulations (FIFA, 2010) obtained from the [www.fifa.org](http://www.fifa.org);
- UEFA Club Licensing and Financial Fair Play Regulations (UEFA, 2012a, 2012b) obtained from [www.uefa.com](http://www.uefa.com);
- CAF Statutes (CAF, 2013) obtained from [www.cafonline.com](http://www.cafonline.com);
- Scottish FA's Club Licensing Manual (SFA, 2013) obtained from [www.scottishfa.co.uk](http://www.scottishfa.co.uk)

The FIFA Club Licensing Regulations (FIFA CLR) provides the framework for confederations and national associations to self-regulate, and provides an example of regulations emanating from a world governing body (WGB). The UEFA Club Licensing and Financial Fair Play Regulations (UEFA CL & FFPR) provides a framework for the financial regulation of clubs governed within a national governing body (NGB) framework. It has been selected for review because it provides the most comprehensive set of financial regulatory tools designed by any Confederation Governing Body (CGB) under FIFA (Flanagan, 2013). The Scottish FA Club Licensing Regulations (SFA CLR) was selected for review based on convenient access and availability. Moreover, the well-publicized financial difficulties encountered by Rangers, one of Europe's leading clubs, have resulted in considerable emphasis being placed on the SFA's approach to financial regulation (Morrow, 2013 forthcoming).

Microsoft Word versions of the following documents were also obtained from the Ghana Football Association's General Secretary:

- Ghana Football Associations Statutes (GFA, 2010);
- Ghana Football Association's Rules and Regulations as amended in September, 2012.

The review involved a utilization of key aspects of Sappington's framework to analyse the FIFA CLR (FIFA, 2010), the UEFA CL & FPR (UEFA, 2012a, 2012b), and the SFA (2013) frameworks and to assess the applicability of various issues to a Ghanaian context (see Chapter 4). A review of the Ghana Football Association's Statutes and its Rules and Regulations was also undertaken to assess its existing approach to the financial regulation of professional clubs.

An assessment of the quality of financial disclosure by Ghanaian Premier Division clubs is also done based on a critical review of financial statements submitted by the clubs to the FA. The review entails consideration of the submission and storage of accounts, the credibility, content and consistency of accounting in the financial statements of the clubs. An assessment of the comparability of the financial statements is also undertaken on the basis of the existence of comparable figures from prior years, treatment of recruitment costs and asset depreciation

The result from the critical review of existing frameworks and the review of Ghanaian football finance, disclosure and accounting policy adoption are then combined to serve as the contextual basis for the formulation of the draft version of the financial regulatory framework for Ghanaian football.

### Semi-Structured Interviews and Focus Group

Opdenakker (2006) provides a comprehensive discussion on the advantages and disadvantages of four different interview techniques for the collection of qualitative data and argues that the difference lies in whether a particular interview type involves synchronous or asynchronous communication in time and/or place. Table 3.4 shows the classification of each interview type based on the above categorization.

<b>Table 3.4: Classification of interview types by Time and Place</b>		
	Time	Place
<b>Synchronous Communication</b>	Face-to-Face (FTF) MSN Messenger Telephone	Face-to-Face (FTF)
<b>Asynchronous Communication</b>	E-mail	E-Mail MSN Messenger Telephone
<b>Source: Opdenakker (2006)</b>		

According to Opdenakker (2006) where the attitude of the respondent towards the framework and their understanding of the model itself is important to the research outcome, an interview technique which is synchronous in place allows for the collection of social cues such as intonation, voice and body language. The use of the face-to-face interview technique had the added advantage over the other techniques of allowing for the non-delayed collection of spontaneous data, even if the cost involved was substantial compared to the other techniques.

However, the reduction in cost through the use of telephone and other forms of interviews in place of face-to-face interviews is most often than not achieved at the expense of quality in result (Sturges and Hanrahan, 2004); and the effect of the trade-off becomes more pronounced in qualitative research that involves a small purposively selected sample. Thus, the choice of the face-to-face

interview technique for the current study is justified by the need to present the model to the respondents before questions could be asked of them, and to also pick up the social cues emanating from the respondents during the course of the interview session, this allowing the researcher to provide enhanced interpretation of the findings.

### ***Research Subjects***

The study involved stakeholders of professional football in Ghana. These included: the professional football clubs in Ghana (16 Premier League); the Ghana Football Association; the Premier League Board; and the Ghana League Clubs Association (GHALCA).

The study involved the Chief Executive Officer or his/her representative in each of the professional football clubs. The representative in question had to be a Manager or somebody within the club with the capacity to take financial decisions on behalf of that club. This ensured that the researcher was able to collect credible information and opinions which represented the view of the clubs. Each of the clubs has a representative in the capital (normally referred to as the Accra Rep of the club) who liaises with the FA on issues involving the clubs. Whilst it would have been easier for the researcher to interview these representatives (since they are all based in Accra) they do not always have the capacity to take decisions on behalf of the clubs and their opinions do not always reflect the position of the Management of the clubs. Thus it was important for the credibility of the study, and the reliability of its outcome to involve only top management level personnel in the interview process.

Out of the 16 club officials that were interviewed, six officially carried the title of Chief Executive Officer; five of them were either members of the club's Board of Directors or carried the title Vice-President; three were either a General Manager, Finance Manager or Administrative Manager; and two of them were either Chairman of the Board or President of the club providing the study with respondents who had varied managerial competencies.

The respondents were knowledgeable about regulation and governance of football in the country as they represented, to a large extent, both the regulators and the regulated as far as professional football in Ghana is concerned. Apart from the President of the FA and the Chairman of the League Board who were all interviewed as key informants, ten of the 16 club officials are current or former members of the Executive Committee of the Ghana Football Association (GFA) or members of other sub-committees of the FA. Two of the respondents are members of the Premier League Board whilst another two are Executive members of the welfare body of the clubs, the Ghana League Clubs Association (GHALCA). Thus the opinions of the respondents represent not only that of professional football clubs in Ghana but also a high percentage of officials of the regulator (Ghana Football Association).

In terms of the professional background of the respondents, six out of 16 have a professional background in banking, finance or law, making them knowledgeable in issues relating to financial regulation. The President of the FA is not only a lawyer by profession, but also works with a bank as legal advisor. The Chairman of the League is also a former Managing Director of a bank with many years of lending history to football clubs. These, together with the officials of the GHALCA provide key-informant perspectives for the study, something

which is considered to generally enrich the study and improve its reliability (Gratton & Jones, 2010)

The Ghana Football Association, the body responsible for the organization, regulation, development and promotion of football in Ghana, was represented in this study by the President of the Association who is also the official spokesperson of the Association. He is also the Chairman of both the Emergency and Executive Committees of the FA.

The Executives of the Ghana League Clubs Association (GHALCA), the welfare body of football clubs in Ghana, were involved as key stakeholders representing all clubs in Premier, Division 1, Division 2 and Division 3 clubs in the country. It was considered that they provided a general perspective on the thinking of the clubs in Ghana. Two of their members took part in a focus group discussion that followed the same approach as that adopted with the clubs.

### ***Instrumentation***

The semi-structured interview guide used to obtain data for the interrogation of the FFC conceptual framework (attached as Appendix 2) was developed based on a general review of literature, the comparative review of existing regulation, the review of Ghanaian football finance, and the preliminary FFC Framework itself.

In choosing the type of interview format to use the researcher was guided by the fact that the study was adopting a mixed-method design in which while the topics for discussion were pre-specified, the order and wording of the questions would vary depending on the participant and the progress of the interview

(Halcomb & Davidson, 2006). The interview guide described the general guidelines as to how an average interview session was to be conducted. The interview guide was validated during a mock interview/model presentation session with the supervisors of the thesis. It indicated that the interview session was to start with the interviewer providing the rationale for the overall study and the description of the functional objectives of the draft Football Financial Clearinghouse Model. It also requested respondents to provide their overall evaluation of the FFC Framework.

### ***Procedures***

The FFC Framework diagrams, together with a Participants' Information Sheet (PIS, attached as Appendix 3), were sent by email to each of the clubs, the FA President, the League Board Chairman and the GHALCA Executives 14 days before the interview session was due, to allow them sufficient preparation time. The FFC Framework Diagrams included Figures 6.1, 6.2 and 6.3. The PIS, which sought to recruit the respondents for the study, provided information including: the rationale for the study; why the respondent was important to the attainment of the study's objectives; and the right of the respondent to withdraw from the study at any stage of the study. This ensured that 'informed consent' (Gratton and Jones, 2010) or more appropriately 'valid consent' (Berg and Latin, 2008) of the participants in the study was obtained.

All clubs were telephoned one week prior to the suggested interview date to confirm both receipt of the FFC documents and to finalize interview arrangements. Whilst the great majority of clubs indicated that they received the emails, 80% of 17 clubs indicated that they had not looked at the contents

of the mail at this follow up stage. Calls were also made a day to each interview to confirm arrangements. The interview guide was piloted a week before the actual interview sessions. This was to check for clarity and logical sequencing of the questions, as well as offering some insight into likely interview duration. One of the three CEOs of the clubs that were relegated from the Premier League in the previous year was selected for the pilot. His background in sports marketing and finance ensured that he had relevant knowledge on the issues under discussion.

The presentation of the framework diagrams during the pilot stage was protracted; the desire on the interviewer's part to provide sufficient detail to inform the interviews leading to a time over-run. As a result of the pilot, the researcher elected to emphasize the key components of the framework during the actual interview sessions; while offering the respondent the opportunity to ask for explanations where they thought it was necessary.

Interview sessions took place between the 7<sup>th</sup> of September and 23<sup>rd</sup> of October, 2012. Where possible the interviews took place at the office or home of the CEO or General Manager of the clubs, so as to conduct the interview in a convenient environment in which the interviewee was comfortable answering questions. However, for practical reasons this was not always possible. The following is the breakdown of the venues for the nineteen (19) interviews that were conducted:

Office of Respondent:	8
Office of the Football Association	4

Office (not that of Respondent)	4
Residence of Respondent	1
Car Park (in parked car)	2

The interviews that were conducted in office environments had the advantage of providing an opportunity to reduce background noise when recording the interviews. The four interviews that took place at the Boardroom of the FA were with members of the Executive Committee and took place between other FA commitments. As a result, these sessions were sometimes interrupted by people looking to have separate chats with the respondent.

### **3.4.2 Ethical Considerations for Primary Data Collection**

Once the framework diagrams and the interview guide had been developed and approved by the PhD Supervisors, they were submitted for approval by the School of Sports Research Ethics Committee. This serves as part of the process of ensuring that the procedures employed and the outcome of the research project is not only ethical but also valid. In due course the Committee gave its approval for the fieldwork to begin (Ethics Approval Certificate attached as Appendix 4). The key issues identified in respect of the project ethics revolved around how the anonymity of the subjects were to be ensured by the researcher, how the research subjects were to be recruited and the need for written consent or otherwise.

The confidentiality of the subjects was ensured by referring to individuals only by an appropriate code (e.g. H001). Both the recorded audio and transcript

data are only available to the researcher and his thesis supervisors to ensure that the information is kept strictly confidential. There are no known risks to the participants in the study.

### **3.4.3 Dealing with Interview Data**

#### Recording and Transcription of Interview Data

With the permission of the respondents each interview was recorded using Sony audio recording equipment, which facilitated transferring the data to a laptop. An Apple iPhone 4s' Voice Memo application was also used as audio recording backup during each interview.

The simultaneous use of two different recording devices reduced considerably the probability of equipment failure and obviated the need to take down extensive field notes whilst interviewing. This allowed more rapport to develop between the interviewer and the respondent and encouraged more information to be divulged by the respondent (Gratton and Jones, 2010). More extensive field notes were written up in the evening after each interview as the use of field notes have been found to be superior to an emphasis on audio recording and transcribing verbatim (Fasick, 2001; Halcomb & Davidson, 2006; Wengraf, 2001).

Only two out of the 19 interview sessions were not interrupted at some point.

Interruptions included:

1. Calls to the respondent's phone;
2. People entering the office to have short discussions

- with the respondent;
- 3. Respondent breaking to conduct a scheduled telephone interview with a radio station; and
- 4. Voices of people from adjoining rooms spilling over to interview room.

Thus the duration of the interview sessions was affected by the interruptions that occurred. Whilst the minimum duration of the interview sessions was 26.50 minutes, the maximum was 73.19 minutes for a focus group meeting. One General Manager of a club insisted that he wanted his Finance Manager to be present for the interview session. This also lengthened the duration of this interview session as two individuals responded to the same issues, sometimes with differing opinions and emphasis. The average interview session lasted for 43.11 minutes. However, the average for the five top clubs was 48.08 minutes, perhaps reflecting their greater experience of financial regulation. Similarly, the key informants had a lot more to say than the clubs themselves with average interview duration of 58.71 minutes.

Each interview session started with an introduction and the rationale for the study. This was then followed by a description of the Football Financial Clearinghouse Model and what it seeks to achieve, facilitated by the PowerPoint presentation of the FFC Framework Diagrams. The respondent was then asked questions based on the presentation of the framework and on its relevance within the Ghanaian context (see Appendix 2). Thereafter the researcher sought to provide clarifications on any issue that was not clear throughout the interview session. Finally, the transcript validation process was then explained to the respondent.

The recorded audio sessions were all transferred into a folder in the NVIVO 10 software which was to be used for the data analysis. Each audio file was given a unique code in an attempt to ensure anonymity of the respondent. This code is only available to the researcher and his PhD supervisors to ensure confidentiality. The researcher listened to each tape twice to ensure that no part of the tapes was missing before the transcription began. A template was also developed for the transcript which showed the:

1. Project title
2. Interviewer
3. Interviewee Code
4. Date of interview;
5. Venue of interview
6. Transcript of Conversation

Transcription refers to “the process of reproducing spoken words, such as those from an audiotaped interview, into written text” (Halcomb & Davidson, 2006; p38). The transcription was done entirely by the researcher given the firsthand knowledge he had in the interview process; the expertise he had in the subject of interview and the advantage of having engaged in verbal and non-verbal exchanges with the participants (Halcomb & Davidson, 2006).

To the extent that the researcher was not engaged in a purely qualitative research (Halcomb & Andrew, 2005; Halcomb & Davidson, 2006) but rather in a mixed-method research design which sought to identify common ideas from the data, verbatim transcription was not considered necessary in terms of the validity or reliability of the conclusions from the study (Seale & Silverman, 1997;

Silverman, 1993; van Teijlingen & Ireland, 2003). Thus the transcripts do not include the verbal and non-verbal cues as well as the presentation of the FFC framework; or nodding and short comments of approval and understanding offered by the respondents as the presentation proceeded. The 20 transcripts (including the pilot interview) were done in Microsoft Word 2010 and transferred to NVIVO for analysis.

### Coding the Interview Data

The coding process facilitated thematic analysis by searching for “sequences of text within and across cases and the links amongst the various themes” (Bryman, 2012; p 13). Each transcript was read twice before coding started and each sentence was coded into one of the sub-themes. Where a sentence contains more than one theme, it was coded under the various different themes and this was later used to identify the link between the various themes. Thus the coding process allowed the researcher to reduce the large volume of transcript data into more manageable themes. An attempt was made to reduce intra-coder variability through the constant review by the PhD supervisors of the coding and analysis process adopted. The issue of inter-coder variability did not arise since the study is an independent study by the researcher and as such there is no possibility of somebody else coding the data which could then be compared.

The coding for the content analysis was done using the NVivo 10 software and this was done in four stages. The first stage produced eight main themes, 33

sub-themes; and a further 40 lower level themes. The transcripts were coded under these various themes. The main themes were:

- a) regulated access to credit;
- b) financial licensing
- c) provision of advisory services
- d) monitoring
- e) composition of FFC board
- f) existing regulation
- g) financial constraints facing clubs
- h) rationale for financial regulation

The first four themes were derived from the FFC Board Function Framework as respondents were asked questions on how the FFC would assist in each of the four functions; whilst the fifth was a process theme. The remaining themes related to existing regulations and financial conditions of the clubs, and to the rationale for the regulation from the clubs' own perspectives.

The second phase of the coding process involved a revision of the coding themes based on discussions with peer reviewers and the thesis supervisors which generated a new set of themes:

- a) rationale for regulation
- b) quality of Existing Regulation
- c) financial licensing
- d) access to private funding
- e) access to public funding
- f) financial capacity building

g) financial monitoring

Each of these themes had an average of four sub-themes. These served as the basis of the analysis section in chapter 6. In respect of the interrogation of the FFC framework which is analyzed in chapter 7, the emergent themes and the sub-themes obtained from the interview transcripts included:

a) Functional Objectives of the FFC Framework

1. general impressions of the FFC framework
2. FFC and financial management within clubs
3. FFC and financial governance from football association
4. incentives for compliance

b) Form of the FFC Framework

1. composition and independence of regulator
2. role of government

c) Implementation Challenges

1. extensive education requirement
2. resource requirements
3. phasing of implementation
4. quality of complementary control institutions

### Analysing interview Data

In analysing the interview data an attempt was made to include direct quotes from the interview transcripts, where appropriate. The researcher has made an attempt to ensure that direct quotes are only used to show instances that are

unusual, data that is unexpected or when they describe the phenomenon particularly well. This is to ensure that the use of direct quotes is not abused (Gratton and Jones, 2010). Where quotes have been utilised their importance to the overall analysis is made explicit. Due to the familiarity with the interview transcripts, the process of analysis combined both the computer software and manual tagging to allow the researcher's insight to inform the analysis.

#### **3.4.4 Limitations of Qualitative Methods**

##### Researcher Reflexivity and Subjectivity

One key challenge of conducting qualitative research is taking into account the effect of the characteristics of the researcher on the research subjects and the entire research process (Denzin, 2001; Gratton and Jones, 2010). As an official of the biggest football club in Ghana since August 2006, and having served on several Committees of the Ghana Football association (GFA), the most recent positions being a member of the FA Cup Committee and the Reserve League Development Committee, there was the potential for the researcher's background to affect the data collection process generally, and the answers given by the respondents in particular.

As someone who could be viewed as a possible 'rival' in the league, the interviewees could view the information to be given as 'industry secret' and as such give deceptive 'answers' or be 'economical' with the information which might have invalidated the data. This potential threat to data validity was dealt with by giving the interviewees assurances that the data collected would be

treated in the strictest of confidence and would be well-stored. This encouraged the interviewees to provide as much information as possible even with little prodding from the researcher.

It could also be argued that the researcher's background rather provided the researcher greater access to the interviewees that could not have been achieved by an 'outsider'. The researcher's ability to arrange interviews with officials of all 16 Premier league clubs, together with officials of the FA was of great benefit to the study and to the validity of the findings. Interviewees were perhaps more willing to discuss their opinions freely with the researcher because they believed that, as 'one of them', the researcher would not misapply the information. As a result existing documents were readily provided, including financial statements of clubs deposited with the FA. This level of provision, coupled with the readiness with which interviewees agreed to be interviewed, strengthens the belief that the researcher's background rather actually served as an advantage to the study.

It remains the case that some interviewees could have attempted to provide 'convenient' or 'correct' answers to the questions (Gratton and Jones, 2010), in an attempt to 'help' their friend obtain the results 'he was looking for', especially in the validation of the FFC framework (subject bias). This potential threat was limited by the researcher encouraging the interviewees to be as forthright as possible, since negative comments were as helpful as positive ones in the development of a framework consistent with the Ghanaian context. This encouraged the interviewees to raise various points of disagreements with the original version of the model which helped to improve the final version of the model.

Care was also taken during the interview session to ensure that the researcher's dressing, personality, verbal or non-verbal cues (including facial expression and nodding) did not in any way 'direct' the respondents or encouraged them to provide answers or argue in a particular way.

It must be noted that the issue of subjectivity cannot be totally eliminated in a qualitative research which is fundamentally value-laden as even the choice of the subject to study by the researcher is subjective (Johnson and Onwuegbuzie, 2004). However, whenever possible attempts were made in this study to ensure that the research design, choice of methods of data collection, process of interviewing and the data analysis process was devoid of the personal subjective thoughts of the researcher. The entire process was moderated at each stage by the two thesis supervisors who served as expert reviewers. This ensured that the results were not influenced by the researcher's personal bias and idiosyncrasies (Johnson and Onwuegbuzie, 2004).

#### Ensuring Reliability and Truthfulness

There is a growing consensus that the twin concepts of reliability and validity used to assess the quality of qualitative research are inappropriate (Gratton and Jones, 2010; Lincoln and Guba, 1985). Even when used in qualitative research reliability refers to the consistency of the methods applied in data collection. Thus to ensure that the outcome of this study is dependable and reliable there is an extensive discussion of all the steps undertaken to arrive at the results, so as to allow for future replication where relevant.

To ensure that data collected was valid and represented the experiences of the participants, the interview transcripts were returned to the respondents who were given a week to review the transcripts. They were then asked to respond to a one-page transcript validation questionnaire which gathered biographical information on the respondents, as well as asking them to indicate whether the transcript corresponded to what had transpired between them and the researcher (see Appendix 5).

Three questions relating to their opinion on the FFC were also included. This was to help ascertain whether the respondents were being consistent with their responses and that the answers given during the interview sessions had not been influenced by immediate circumstances including their surroundings and current experiences (Gratton and Jones, 2010).

It could be argued that the presentation of the FFC Model during the data collection stage to the participants had the potential to ensure that the study achieved ontological, educative, catalytic and tactical authenticity (Holloway and Wheeler, 2009). The respondents were educated to develop a greater understanding of others within their world; enhance their decision making and also empower them to improve the financial management of their clubs.

### Generalization of Research Findings

An important feature of any research is the possibility of the research findings being generalized beyond just the few people included in the research study. Even though generalizability of research results may not be necessary

requirement from a qualitative design, the results from this study may be expected to have resonance beyond the professional football clubs in Ghana.

An empirical generalization is made where the researcher argues that the study population is statistically representative of the wider population allowing him to infer that what is true for the sample would be true for the general population (Mason, 2002). In this study, however, the entire population of fully-professional football clubs was used to interrogate the draft framework for the financial regulation of professional football clubs. This thus suggests that there is no challenge to the generalizability of the study to professional clubs in Ghana. Moreover, it is believed that the study's results could be important to amateur football clubs which may attempt to join the Premier League, as a result of the process of merit-based relegation and promotion.

More generally, there is no reason to believe that Ghanaian professional football clubs operate in an environment which is completely different from that of clubs in neighbouring West and Central African countries, both in cultural and economic terms. Broere and van der Drift (1997) provide an interesting account of the huge similarities in football cultures in Africa, south of the Sahara. Beyond the language dichotomy of English and French, similarities exist in the economic conditions facing clubs in all these countries including: high cost of borrowing; inadequate access to alternative sources of funding due to under-developed money and capital markets; and high and rising levels of inflation. Specific to the footballing environment are problems of poor revenue from match tickets and mass exodus of players to leagues in Europe and Asia (Darby, 2010), and the politicisation of football (Fridy and Brobbey, 2009). This might have resulted from clubs' inability to compete in terms of remuneration of

players; inadequate and inefficient governance systems; and inadequate regulation. As such the findings of this study are expected to be of use to clubs in the other countries that share similarities with their Ghanaian counterparts.

### **3.5 APPLICATION OF QUANTITATIVE METHODS**

#### **3.5.1 Financial Performance and Position of Clubs**

##### Data Challenges, Types and Form

The study made use of both primary and secondary data. The secondary data was mainly quantitative data obtained through the review of financial statements of clubs that have played in the Premier League from 2006 to 2011. Premier League clubs are required to submit audited accounts annually to the FA in fulfillment of the requirements of Article 8(1).

Officials of the FA could not readily locate the submitted financial statements of the clubs, suggesting a problem with record keeping at the FA. The FA also exempted three newly promoted clubs from submitting financial statements on account of the late determination of which team had qualified to play in the Premier League. The Division One season overshot its original duration ensuring that the teams that were promoted to the Premier League for the 2012/13 season were only known one month before the commencement of the season. This reduced the number of financial statements that could have been used in the study. The initial request by the researcher to the FA for copies of previously submitted audited accounts yielded 23 out of a possible 96 sets of audited accounts covering the period 2006-2011. A follow up request produced

another 22 financial statements. The information in these financial statements is used for the analysis in sections 5.2, 5.3 and 5.4.

The other set of secondary data was obtained from 'function statements' which provides the distribution of revenue from league matches. Clubs are obliged to submit copies of the Function Statement to the Ghana Football Association after each game. However, not all clubs have a good history of ensuring that the Function Statement gets to the FA. The clubs using venues operated by the National Sports Authority (NSA) are more likely to submit function statements, and also present verified revenue figures, compared to those playing in privately-owned grounds, as the Authority also has a stake in the total revenue accrued.

During the field work in September 2012, the researcher obtained copies of function statements covering the period from the 2005/06 season to the first round of the 2011/12 soccer season. These were obtained from the FA Accountant on the instructions of the FA President. A further request covering the second round of the 2011/12 season was made to the FA. This data is the basis of the analysis of match attendance in section 5.5.5 of this study. The FA also provided data on the indebtedness of Kotoko to other clubs, and information on efforts made by the club to settle its indebtedness. This data is analyzed in section 5.5.2.

The limited nature of the data did not allow for the utilisation of more efficient analytical tools such as the ones employed by Cordery et al. (2013) to assess the financial vulnerability of sports clubs in New Zealand. However, to the extent that this study serves as a baseline study of football finance in Ghana, its

results remain useful as a reference point for more sophisticated analysis in the future.

### Analysis of Quantitative Data

In assessing the financial position of clubs, simple ratios and percentage changes have been employed in section 5.3 of the study. Trend analysis in respect of revenue, expenditure and net profit are also done. Changes in asset, liability and equity positions are also assessed using trend and ratio analysis. Cash management ratios such as gearing ratios are also employed to assess the financial performance of Ghanaian professional clubs.

### **3.5.2 Transcript Validation Questionnaire**

This section discusses the implementation of the transcript validation questionnaire and the analysis of the data obtained from the questionnaire.

#### Data Types and Form

Approximately two months after the interviews were concluded and after the transcription had been done, a transcript validation session was undertaken where each of the completed transcripts were returned to the respective respondents as part of a second round of fieldwork (see section 3.4.4). A one page questionnaire was developed to obtain the respondents views on the quality of the transcription done by the researcher (Appendix 5). This was to allow for the triangulation of the data from the first round of interviews to ensure that respondents were consistent on some of the key issues raised in the validation of the model. The questionnaires were readily filled and returned by

all the respondents since the researcher sent them to the respondents by hand. It took each respondent less than ten (10) minutes to fill them in the presence of the researcher since they had already reviewed their transcripts.

### Analysis of Quantitative Data

Simple proportions and ratio analysis was done with the data collected from the questionnaire to support the interrogation of the FFC framework discussed in Chapter 7. All the respondents indicated that, to a very large extent, the transcripts corresponded to the interview done earlier and that little or no changes had to be made in the transcripts for them to be valid.

## **3.6 SUMMARY**

This chapter discussed the ontological, epistemological and methodological issues relevant to this study. On the basis that answering the various research questions posed in the study require different methodological approaches, the study opted for a mix of both qualitative and quantitative methods to both data collection and analysis.

In respect of the qualitative approach, the method of critical review was adopted in respect of the existing football financial regulatory frameworks. Qualitative content analysis, undertaken using NVIVO software, was utilised to analyse the data obtained from the semi-structured face-to-face interviews of stakeholders of professional football in Ghana. This was in part to obtain their views on the financial regulation and management in Ghanaian football, and

also to interrogate the conceptual model of financial regulation that was developed in the study.

A purely qualitative process of utilising Sappington's framework and the conclusions drawn from the review of existing frameworks, and the review of Ghanaian football finance was also undertaken. The limitations of utilising qualitative methods in research and how they were dealt with was also discussed in this chapter. The chapter also discussed the utilisation of quantitative methods such as financial ratios to assess the financial performance of Ghanaian football clubs as the basis for developing the context-specific FFC Model. The validation of the interview transcripts with a questionnaire was discussed.

In effect this study also outlines, in detail, the systematic steps undertaken to arrive at the FFC framework, which is the final outcome of the study. The study utilises the review of the theoretical literature to justify the selection of the Sappington Model as the conceptual framework for the review of the existing frameworks for the financial regulation of football (done in the next chapter). It also serves as the framework for the development of the FFC Model at the conceptual level. The review of the existing frameworks of financial regulation is then combined with the review of Ghanaian football finance to provide the justification for, the industry conditions and the institutional environment within which the FFC framework is developed. This framework is then interrogated with the help of stakeholders of Ghanaian professional football and the results are used to modify the framework into one that is applicable in the specific context of Ghana. This very academic process of model development allows for replication of the conclusions of the study in other jurisdictions.

## CHAPTER IV

### EXISTING FRAMEWORKS OF FOOTBALL REGULATION

#### – A CRITICAL REVIEW

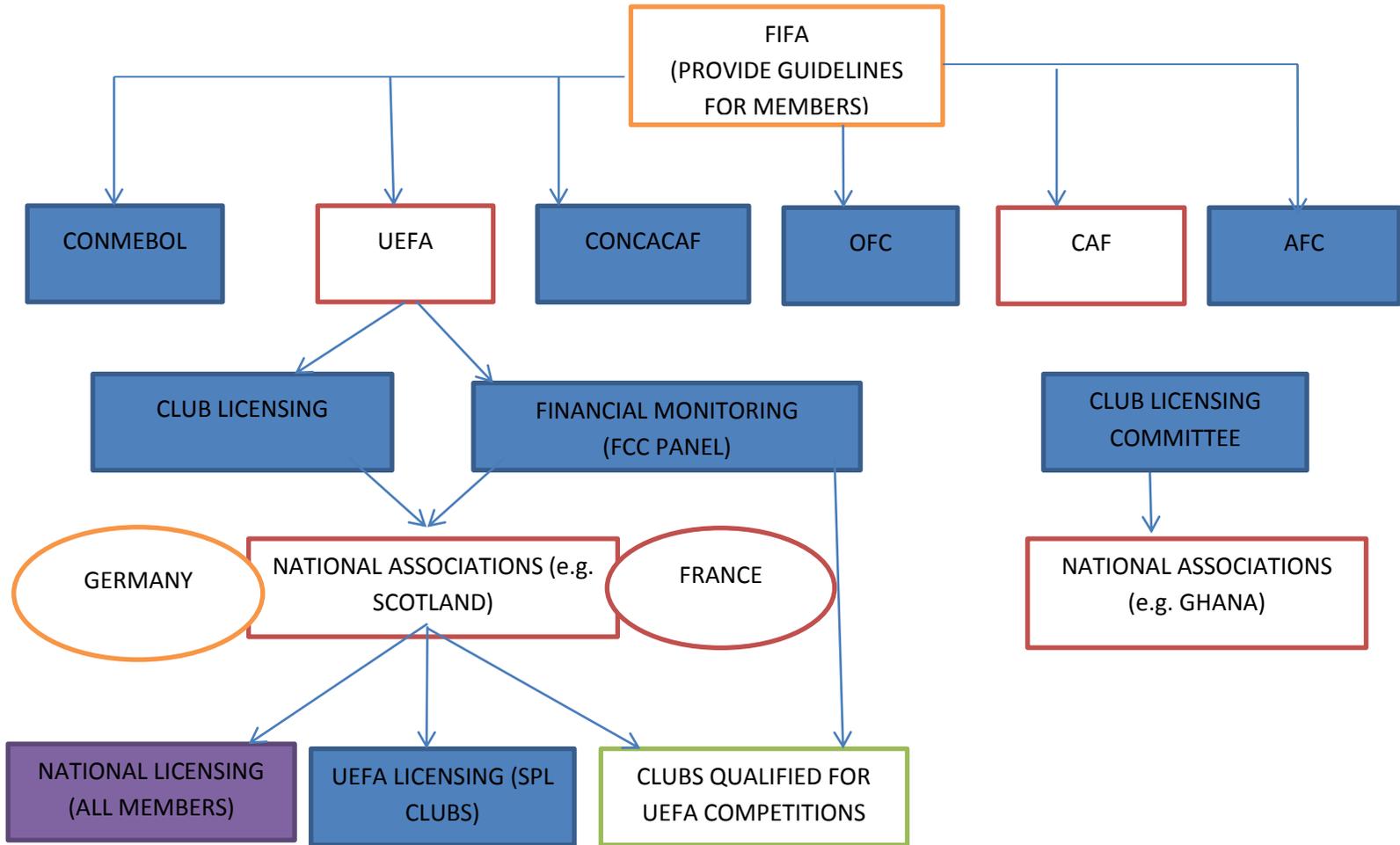
#### **4.1 INTRODUCTION**

This chapter provides a critical review of existing regulatory frameworks in football utilizing the main aspects of Sappington's framework. The aim of this review is to provide useful lessons for the development of the context-specific regulatory framework for professional football; a key objective of this study.

##### **4.1.1 Regulations Reviewed**

Figure 4.1 provides an overview of the relationship between the various regulations reviewed in this chapter. These include the FIFA Licensing Regulations (FIFA, 2010), the UEFA CL & FFPR (UEFA, 2012a), the SFA CLR (SFA, 2013), and the GFA Rules and Regulations (GFA, 2010). The FIFA CLR could be considered as a meta-regulatory framework that allows member confederations and the national associations to self-regulate (Coglianese and Mendelson, 2010), and provides an example of regulations emanating from a world governing body (WGB). The UEFA CL & FFPR, on the other hand, is an example of a regulation emanating from a confederation governing body (CGB), which provides a framework for the financial regulation of the clubs within member national governing bodies (NGBs).

Fig. 4.1: Structure of Regulations Reviewed



It has been selected for review because it provides the most comprehensive set of financial regulatory tools designed by any CGB under FIFA (Flanagan, 2013). It was developed by UEFA through the adoption of a 'holistic and systemic approach' (Bell, 2011), in a very pro-active attempt to deal with the risks of financial management in European football (Flanagan, 2013).

These risks have arisen as, despite remarkable increases in revenue, it has failed to keep pace with significant increases in player costs, as elite level clubs attempt to gain promotion, avoid relegation or to outdo each other to qualify for the lucrative UEFA club competitions (Balduck and Lucidarme, 2011; Beech, 2010; Dietl and Franck, 2007; Gouget and Primault, 2006; Hamil & Chadwick, 2010; Lago et al., 2006; Morrow, 2011; Senaux, 2011)

The SFA CLR represents an example of an NGB's attempt to regulate the financial management of its clubs based on guidelines from FIFA and its CGB. It was selected for review based on convenient access and availability. Moreover, the well-publicized financial difficulties encountered by Rangers, one of Europe's leading clubs, have resulted in considerable emphasis being placed on the SFA's approach to financial regulation (Morrow, 2013). The GFA's Rules and Regulations (GFA R&R), which at the commencement of this study was the only document in Ghana that attempted to provide some form of financial regulation of professional football clubs in the country, is also reviewed. Examples, where necessary, are also taken from the German and the French club licensing systems; considered as the forbearers of the UEFA CL & FFPR (Dietl and Franck, 2007; Gammelsaeter and Senaux, 2011).

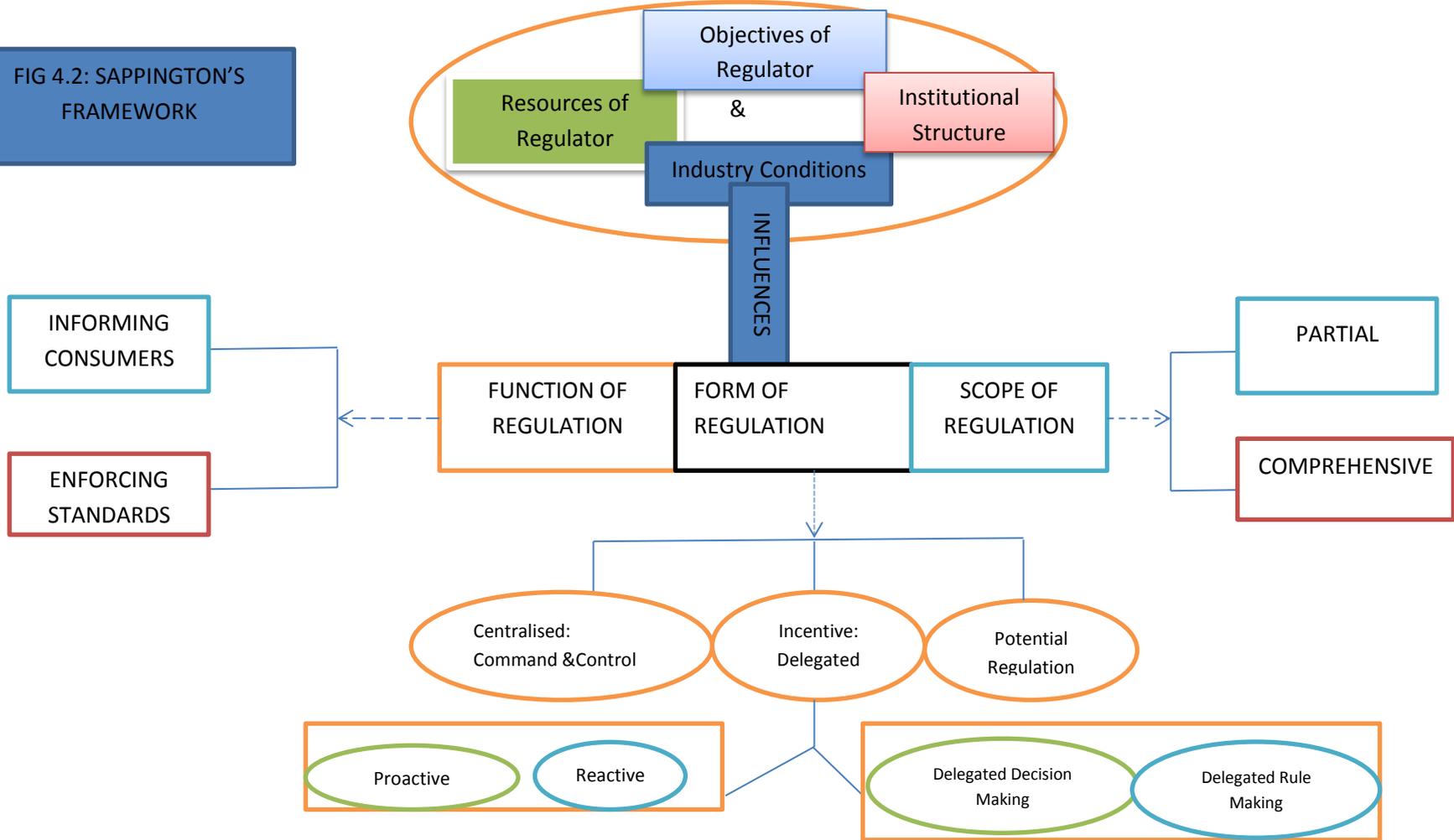
The review concentrates on the financial components of these over-arching regulations, their apparent strengths and weaknesses and relevance in respect of a developing economy context, and the lessons that could be drawn from them in the formulation of an incentive-based financial regulatory framework for Ghana.

#### **4.1.2 Sappington's Framework as the Basis of the Review**

Figure 4.2 provides an overview of Sappington's framework, the main aspects of which are used to shape the analysis of the existing framework in subsequent sections of this chapter. Sappington argued that the objectives and resources available to a regulator, together with the industry conditions and institutional environment within which the regulator operates influence the form, scope and function of regulation (section 2.1.2). The main functions of a regulation would be either to inform consumers or to enforce standards that the regulation requires the regulatee to conform to.

The choice between developing a comprehensive set of regulations to regulate every aspect of the regulated firm's activities, and concentrating on a partial scope for the regulation depends on the level of information available to the regulator. This is in turn dependent on the quality and quantity of human resources available to the regulator, relative to the regulated firms (see section 2.3).

FIG 4.2: SAPPINGTON'S FRAMEWORK



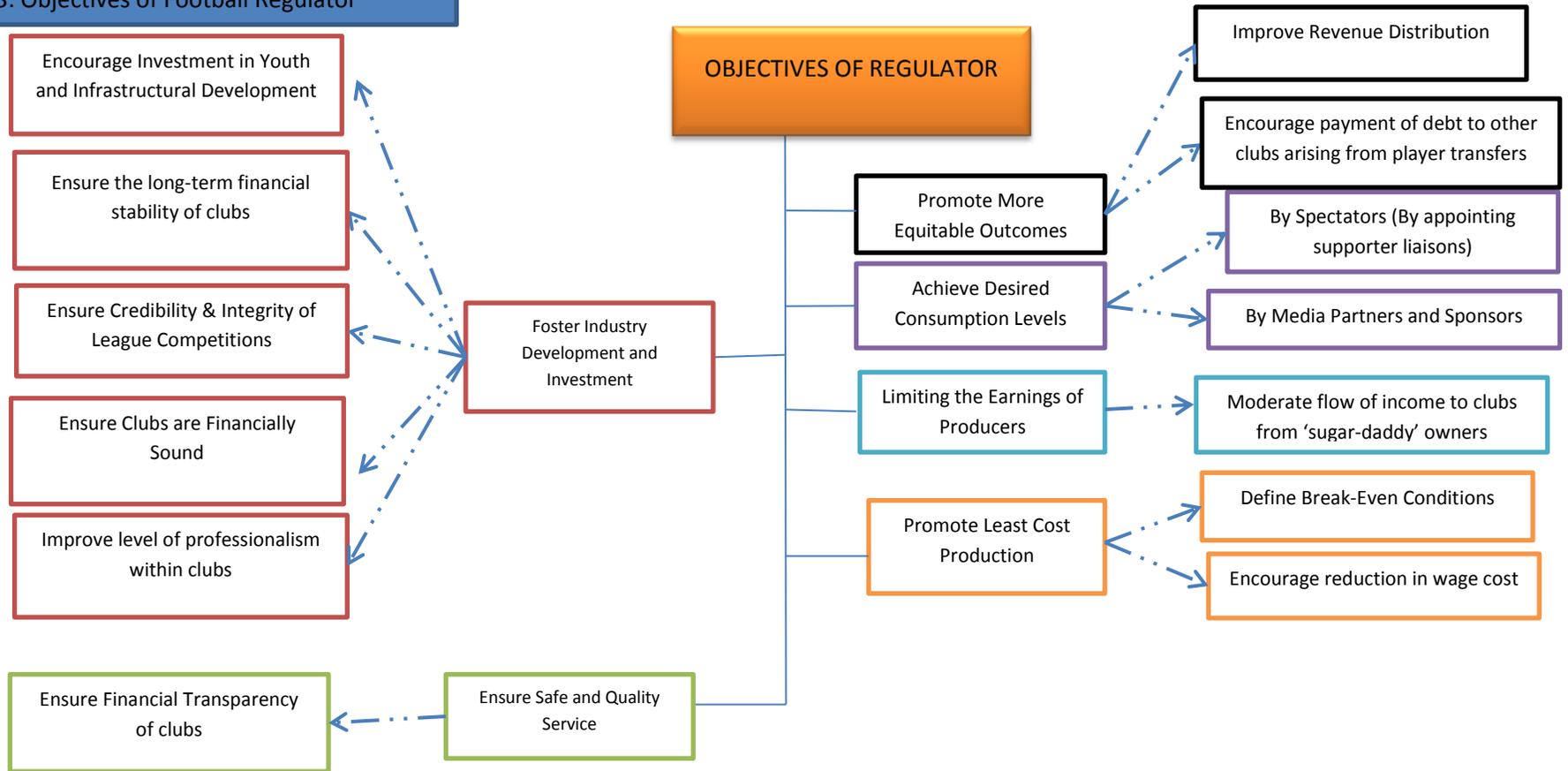
Sappington argues further that the three forms that regulation could take would be a traditional centralized command-and-control, delegated incentive-based, and potential regulation (see section 2.6). The incentive based regulation could either be a proactive or reactive. Also, the decision-making or the rule-making, or both, could be delegated to the regulated entity.

## **4.2 OBJECTIVES OF REGULATOR**

Figure 4.3 provides an overview of the financial objectives of clubs as specified in the various frameworks under review and how they are related to the objectives of regulators in general, as specified in Sappington's framework.

The introduction of football club licensing around the world (see FIFA, 2010; UEFA, 2010) is a systematic attempt to encourage good governance, financial stability and transparency in football club management. The financial objectives of these regulations are to be achieved through the safeguarding of the credibility and integrity of club competitions by improving the level of professionalism and the degree of financial transparency within the relevant clubs (Bell, 2011; Flanagan, 2013; Lindholm, 2011). These authors suggest, for instance, that UEFA's Financial Fair Play rules seek, essentially, to achieve long-term financial soundness, thereby ensuring the long-term viability of European football. These objectives could be said to be consistent with the rationale for financial regulation of any sector of the economy including banking (Brunnermeier et al., 2009), and utilities (Filbeck and Gorman, 2004).

Fig. 4.3: Objectives of Football Regulator



They are also consistent with Sappington's objectives of fostering industry development and investment; ensuring safe and quality product; promoting equitable outcomes; achieving desired levels of consumption; limiting earnings of producers and promoting least cost production.

#### **4.2.1 Industry Development and Investment**

In order to foster industry development and investment (Sappington, 1994), the club licensing frameworks under review encourage clubs to invest in youth and infrastructural development as a means to ensure that the future resources of the club are developed in a sustainable way (FIFA, 2010, Article 6.2; UEFA, 2012, Article 17, 18, 58). UEFA, however, goes a step further in giving meaning to this objective by exempting expenditure on youth and infrastructure development from the calculation of relevant income and expenditure used to determine its break-even determination (UEFA, 2012, Article 60). It is argued that developing their own youth teams should ensure that clubs are in a better position to avoid the need to acquire expensive players in the future, while also providing an opportunity to earn income from the sale of players they develop. This has the potential to ensure the long term financial stability of the clubs.

In an attempt to safeguard the credibility, continuity and integrity of club competitions these regulations aim at improving the economic and financial capabilities of the clubs, making strides towards ensuring clubs' financial stability and the smooth running of leagues (Bell, 2011; Flanagan, 2013; Preuss et al., 2012). There are externalities associated with the financial stability or otherwise of clubs within the league as it affects the credibility of the league (Budzinski, 2010). A credible league has the potential to attract the right

level of investment from sponsors for the league and clubs in general. The credibility of the league thus could be considered as a public good with benefits accruing to even clubs whose investment decisions may not ensure financial stability. It thus seems reasonable to argue that in the absence of regulations club officials may not supply efficient levels of financial stability and integrity in a football competition.

Improving the level of professionalism within football clubs is another objective which relates indirectly to the financial activities of clubs (Flanagan, 2013). The quality of financial information generated by a club would determine the quality of financial management decisions taken by that club (Sappington, 1994), and would be a function of the quality of personnel employed by the club to manage its finances. For example, personnel in the finance department of a Ghanaian club should be conversant with the appropriate accounting, auditing and reporting standards required by the Companies Act, 1963 (Act179), IFRS and the club licensing regulations. It could therefore be argued that the Personnel and Administrative criteria inherent in all of the licensing frameworks under review expect clubs to employ the appropriate calibre of personnel to ensure professionalism in their activities (FIFA, 2010, Article 8.2, P.03; UEFA, 2012, Article 29)

#### **4.2.2 Safe and Quality Service**

FIFA (2010, Art 1.1), UEFA (2012, Article 2) and SFA (2013, Article 2.1) all seek to promote transparency in the finances of clubs. There is information contagion effects associated with the financial outcome of clubs and an improvement in the financial fortunes of clubs would improve confidence in the

footballing industry and hence encourage commercial partners to associate with the industry. Accounting, auditing and reporting requirements aim to ensure the financial stability of clubs, by requiring them to conform to stated acceptable standards, at the same time safeguarding the credibility and integrity of the club competitions. In so doing it also ensures that stakeholders obtain the information necessary to make assessments as to whether clubs are being run efficiently or not.

#### **4.2.3 Equitable Outcomes**

In conformity with FIFA Club Licensing Regulations (FIFA CLR) another objective general to all the other licensing regimes is the need to protect creditors of clubs such as players, social/tax authorities and other clubs (Article 65 and 66 of UEFA CL & FFPR). In all cases clubs are required to ensure that their liabilities to these categories of creditors are settled promptly when due (Bell, 2011; Preuss et al, 2012). When clubs buy players from other clubs, inevitably they deny the selling club the chance of utilising the services of the player. Should they then refuse or be unable to settle the debt obligation in respect of this transaction, however, they also deny the selling club the opportunity to replace that player, thus further weakening its ability to compete equally. This is akin to double jeopardy – punishing an individual twice for the same offence. For the buying club, it could be said to be engaging in ‘financial-doping’, (Hamil and Walters, 2010) which according to the Collins English Dictionary is

“---The situation in which a sports franchise borrows heavily in order to contract and pay high-performing players, jeopardizing their long-term financial future---“

Football clubs often portray themselves as social institutions (Morrow, 2003); for which they sometimes receive benefits including financial ones (Barros, 2006; Dejonghe and Vanderweghe, 2006; Senaux, 2011). Payment of taxes is a social obligation and as such every club is reasonably expected to fulfil their social obligations. In Ghana, this would include: income tax deductions from staff salaries; social security contributions on behalf of workers; Value Added Tax and National Health Insurance Levy from gate proceeds (GRA, 2012). In this regard, when one club settles its debts to tax and social authorities in a timely fashion whilst others do not, the outcome cannot be considered to be equitable as the conforming club is disadvantaged in cash flow terms relative to other clubs. Secondly, a football club is expected to provide performance over a short-term, rarely extending beyond a season. The benefits from debt payment avoidance may be huge if as a consequence a club avoids relegation or gets promoted; another feature of financial doping. This objective therefore could be interpreted as an attempt to promote more equitable outcomes as envisaged by Sappington (1994).

The UEFA CL & FFPR defines a comprehensive monitoring system to ensure clubs do not have overdue debts (UEFA, 2012, Part III, pp.32-41). The GFA Statutes (GFA, 2012b, Article 17.1.1) in contrast do not make any attempt to enforce the settlement of debts between clubs within the association beyond suggesting the setting up of an arbitration panel whenever there is a dispute

between two clubs over transfer issues. The introduction of a body to coordinate the implementation of a player transfer payment system; oversee player contracts with clubs; and also review the financial statements of clubs within a financial regulatory framework in Ghana football would act to ensure that clubs pay their creditors on time, with the resultant benefits alluded to in the discussion of other frameworks. While it could be argued that promoting more equitable outcomes in sports could be an improvement in revenue distribution (Kesenne, 2005) achieving greater competitive balance is not an explicit aim of the Financial Fair Play rules (Lindholm, 2011), or for that matter any of the other licensing frameworks under review

#### **4.2.4 Limiting the Earnings of Producers**

The interdependence between financial and sporting success is well documented (Franck, 2010; Frick, 2004; Preuss et al, 2012; Szymanski 2003; Vöpel, 2011). As financial rewards from sporting contests increase, club 'owners' and directors increasingly overstretch resources in a 'rat race' hunt for talent; seeking to maximise sporting success and in turn financial rewards (Akerloff, 1970). It could be argued that UEFA's attempt to moderate the flow of income to clubs from 'sugar-daddy' investors may not only be an attempt to reduce the financial risks associated with investment in risky assets (Lindholm, 2011; Preuss et al, 2012), but may turn out to place a limit on the potential earnings of these investors (Sappington, 1994).

#### **4.2.5 Promote Least Cost Production**

It has been suggested that the main aim of FFP is to limit the sums of money that clubs may spend on wages (Lindholm, 2011), thus promoting least cost production (see Fig. 4.2). He argues that, the break-even rules may function like price fixing agreements among competing buyers, akin to salary caps in other leagues, the rules preventing clubs from spending more than they earn through their football activities (Dietl et al., 2011). The argument here is that huge investments by 'so-called benefactor owners' leave the clubs with huge debts whenever the owners decide, sometimes at short notice, to quit the clubs. Most commonly the losers when owners behave in this way are clubs' other stakeholders including supporters and other trading partners. Secondly, it could be argued that the competitive nature of football means that there is a risk that the spending behaviour of benefactor investors encourages similar behaviour among competitor clubs which may not have the resources to do so, thus over-exposing their clubs to risks.

A counter argument is that FFP rules may in fact restrict the opportunity for investment into football clubs. Geey (2011) argues that aspects of the break-even regulations actually discourage industry development and investment by limiting possible investment into and by smaller clubs; effectively acting as a barrier to such clubs entering into 'league of big clubs'. Allowing them to spend beyond their means in the short run may allow them to buy the best players, obtain more sporting success and more income, which would help them to grow.

The UEFA CL & FFPR unlike the other licensing frameworks goes beyond just being a tool aimed at establishing good corporate governance, financial transparency and stability in football as suggested by Bell (2011). Whilst the club licensing components of UEFA (2012) shares the tenets of the other licensing frameworks in this review, the FFP component represents a “modest, robust and graduated” attempt toward financial rationality (Flanagan, 2013). It requires clubs to balance their books and not spend more than they earn (Geey, 2011). According to Preuss et al. (2012; p. 4) UEFA’s FFPR is an ambitious but positive attempt to introduce more discipline and rationality in club football finances; achieved by hardening what Storm and Nielson describes as “soft-budget constraints” facing clubs (2011, p. 4). Soft-budget constraints exist where clubs believe that they could overspend on player investment to achieve sporting success, and that their growth does not depend on current or future financial performances, or the ability of the clubs to avoid losses.

#### **4.2.6 Achieve Desired Levels of Consumption**

In the production of football, the fans are both producers and consumers at the same time. To ensure certain levels of consumption of the products of the football industry by fans, clubs would have to make efforts to reach out to the fans as major stakeholders (Senaux, 2008; Walters, 2007). This would depend on the ability of the clubs to improve their marketing and commercial activities which could be achieved through improved human resource capacity, an objective of both the UEFA (2012, Article 27-29) and the SFA regulations.

### **4.3 INSTITUTIONAL STRUCTURE**

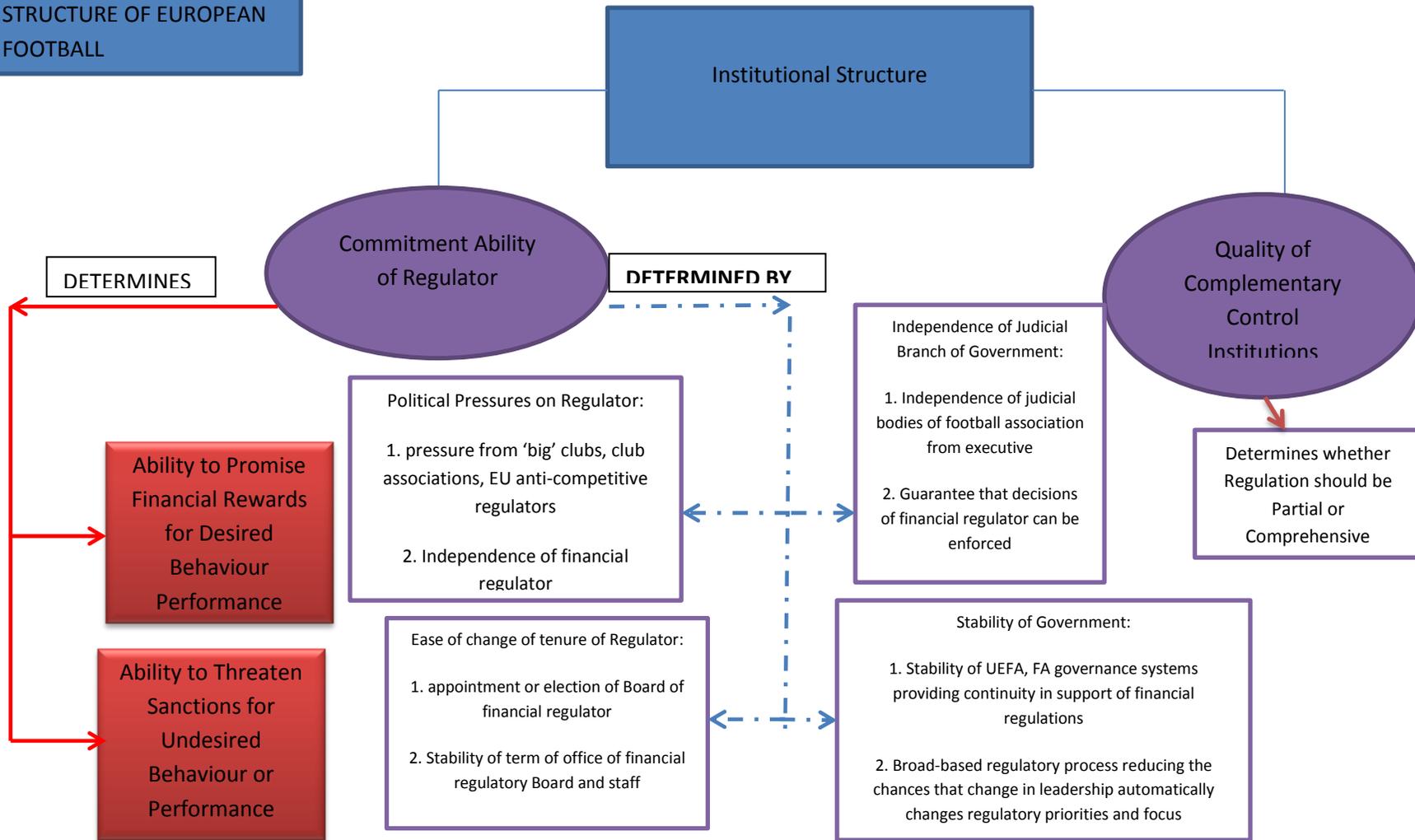
This section discusses the relevance of the institutional environment to the form and scope of the regulations reviewed. Figure 4.4 provides an overview of the issues that are relevant to the institutional environment of FIFA, UEFA and the Scottish FA which affects the form and the scope the licensing regulations take.

#### **4.3.1 Delegation of Responsibility**

FIFA (2010, Article 3.2) defines the national member association as the licensor with ultimate responsibility for the licensing system resting with the national association. UEFA (2012, Article 5.1) and SFA (2013; Art. 1.3a) thus recognise the NGB as the licensor, in respect of licensing. The NGBs award licenses on behalf of UEFA, for their clubs to compete at international level, and/or on their own behalf in respect of domestic competitions. The FFPR component of UEFA (2012) however is not delegated to the NGB.

The NGBs could, however, delegate the implementation of the licensing to an affiliated league or set up an independent body. As a minimum requirement there has to be two decision making bodies referred to in FIFA (2010; Art. 3.2.2.2) as the first instance body (FIB) and the Appeals body (AB). This is in pursuit of FIFA's desire to ensure that the principles of fair treatment, the right to a hearing, and the right to an appeal, which are integral to its principle of fairness, are respected. Thus, consistent with Sappington's framework (1994) there is a large degree of delegation of responsibility in respect of decision-making between FIFA, the Confederations, the NGBs and the Licensing bodies.

FIG. 4.4: INSTITUTIONAL STRUCTURE OF EUROPEAN FOOTBALL



#### **4.3.2 Decision-Making Bodies for Club Licensing**

UEFA has been responsible since 2004 for the licensing of clubs that take part in its club competitions through their respective national associations (UEFA, 2004). Since the introduction of the FFPRs, however, the Club Financial Control Body (CFCB), composed of qualified experts in the financial and legal fields (Preuss et al, 2012) has been set up at the confederation level. It works through its two chambers: the investigatory and adjudicatory chambers (see Appendix 6). This is an independent body charged with the responsibility of governing the monitoring process of the financial component of the club licensing process (UEFA, 2012a; Art. 53). They are responsible for the compliance audits in which they ensure that both the licensor (FA) and the applicants/licensees comply with the minimum requirements for the award of the licence.

At the National Association level the Scottish FA set up a Licensing Committee (the FIB) whose meetings are regulated by the Scottish FA's Board Protocol which determines whether a club's licence could be issued or not and at what level the license is to be issued (SAF, 2013; Art 2.2). The Scottish FA's Licensing Committee has the power to award three different levels of license. It awards domestic licenses to all members playing in the various levels of the league. Additionally Scottish Premier League (SPL) clubs apply for UEFA licences through the Licensing Committee, whilst clubs that qualify to play in UEFA competitions on sporting merit and also meet the additional UEFA FFP rules are also licensed separately by UEFA.

This three tier system ensures that every member of the national association undergoes a certain minimum form of licensing. Whilst this provides potential benefits in the form of harmonising the operations of clubs at all levels, the resource cost of such a venture in a developing economy may be prohibitive.

The Confederation of African Football places less emphasis on the financial regulation of clubs compared to its UEFA counterpart. Beyond its club licensing regulations it has not gone to the extent of introducing specific regulation aimed at improving the financial management of clubs in its member associations. Neither does it have a body akin to the CFCB found in the UEFA system. Instead, the Organising Committee for the Management of the Club Licensing ensures that the process of issuance of licences by affiliated national associations to take part in the CAF Inter Club competitions conform to CAF licensing regulations (CAF, 2013).

#### **4.3.3 Commitment Ability of Regulator**

In relation to Sappington's arguments the commitment ability of the licensor is dependent on the political pressures that may be brought to bear on it by clubs, the association of clubs, player associations and federations themselves. UEFA has had to make concessions to the clubs in the formulation of its FFP Regulations to avoid threats of break away from UEFA by top clubs (Geey, 2011). More specifically, Geey (2011) also claims that this process of consultation resulted in a number of concessions being made including the provisions set out in Annex XI (mitigating factors which could be considered by UEFA in respect of the FFP monitoring requirements), and the removal of all

infrastructure and youth development costs from the break-even calculation. The possibility of a transfer embargo as a punishment for not meeting FFP regulations was dropped by UEFA due to possible threat of restriction-on-trade suits by players according to football advisory firm Grant Thornton (2012).

UEFA is expected to begin the analysis of the finances of clubs qualified for its competition for the purposes of FFP in May 2014. In June 2013, The Court of Arbitration for Sport (CAS) affirmed an UEFA ban on Spanish club, Malaga for having overdue debts to other clubs and Spanish tax authorities, under the FFPRs (Rogers, 2013). This meant that Malaga could not compete in the 2013/14 Europa League for which it had qualified on sporting grounds. It could be argued that UEFA has thus shown a willingness to stick to its rules.

The sanctions that may be imposed by the adjudicatory body of the CFCB include, but are not limited to, deduction of points, withholding of revenues from a UEFA competition, prohibition on registering new players in UEFA competitions, and restriction on the number of players that a club may register for participation in UEFA competitions (UEFA, 2012b, Article 21). Others include disqualification from competitions in progress and/or exclusion from future competitions, and withdrawal of a title or award. Thus UEFA could be considered to be adopting a deterrence approach to regulatory compliance, rather than explicitly utilizing an incentive based approach (Simpson, 2002; Gunningham, 2010)

However, doubts still exist whether UEFA is able and willing to sanction any of the big clubs in the six major footballing nations of Europe, if they fall foul of the FFP regulations (Geey, 2011). In Ghana, clubs which have fallen foul of the

forfeiture clauses in the FA regulations (GFA, 2010, Article 34) have been dealt with accordingly, irrespective of the size of the club. This may be a sign that the FA has adequate commitment ability to withstand pressures in the implementation of regulations.

The FIFA Club Licensing framework, which serves as a meta-regulatory framework that governs the form that the licensing frameworks of the national association takes, gives the right to determine the tenure of the licensing bodies to the federations. A pre-defined tenure of the financial regulatory body which could be renewed without limit might provide the necessary confidence and independence of the regulator to allow it resist regulatory capture (Morrow, 1999). This, according to Sappington (1994) would improve the commitment ability of the regulator.

UEFA makes an attempt to ensure the stability of the term of office of the CFCB. For example Article 5 of the CFCB Procedural Rules specifies a term of four years, with opportunity for re-election. The Scottish FA specifies the term of office of a member of the Licensing Committee as being two years and the individual could be re-appointed without limit. However, a longer tenure, overlapping the terms of the Executive Committee of the Ghana FA, would be more effective as it would ensure that any incoming Executives would not be tempted to immediately appoint a new set of people to the Licensing Committee to serve its wishes.

This is crucially important in the Ghanaian context where members of the Executive Committee which also own clubs would at the same time be seeking licenses for the new season. The potential for conflict of interest of this nature,

and regulatory capture to exist increases with the value of the expected benefit, and as the decision-making process becomes less transparent (Barnes and Florencio, 2002; Becker, 1983). For instance, there is every cause to believe that a vote to re-admit Rangers into the Scottish Premier league (SPL) would involve conflict of interest as the club also has a right to vote (Morrow, 2013).

The quality of the complementary control institutions such as the judicial bodies of the national federation would determine the extent to which the objectives of financial regulation are achieved. A weak judiciary process would limit the ability of the financial regulator to enforce its decisions against clubs. The motivational posture of clubs would be determined by the perceived fairness of the regulatory regime (Baldwin and Black, 2008). The ability of the league management to effectively regulate all other aspects of the clubs' management would allow the financial regulator to limit itself to the financial management of the clubs.

#### **4.4 RESOURCES AND INDEPENDENCE OF REGULATOR**

This section discusses the importance of the resources of the regulator to the form, function and scope of regulation in respect of the regulations reviewed.

##### **4.4.1 Quality of Human Resources**

The quality of the regulator's resource is an important determinant of the level and quality of information used in decision-making (Sappington, 1994). It also affects its ability to ward off regulatory capture, as it improves the independence of the regulator and its ability to deal with political pressures

emanating from the executive arm of any football association. Really responsive regulation would be responsive to the distribution of resources within the environment in which the regulator operates (Baldwin and Black, 2008), and the institutional environment in which it operates. Thus in developing a financial regulatory framework for football the regulations have to address the issue of the quality of personnel necessary for the achievement of the goals of the regulation.

Andreff (2011) developed this argument further by suggesting that as much as possible the membership of financial decision-making bodies for sporting organisations should no longer be nominated by federations, leagues, clubs, trainers or players' unions. He argued that as a matter of constitutional requirement, their membership should be made up of chartered accountants, financial experts, lawyers, economists, as is usual in other industries, in order to assure independence. However, this cannot be done to the exclusion of people with knowledge about the workings of the sporting organizations themselves i.e. industry experts.

FIFA, apart from insisting that the independence of the decision making bodies should be guaranteed in the Club Licensing Regulations, does not make explicit requirements as to the qualification of the membership of the boards. UEFA (2012a) is, however, very clear on the minimum requirements as far as composition is concerned, suggesting that decision making bodies should include individuals who meet the requirements of independence as defined in Article 7.7 of UEFA (2012a), and with backgrounds at the highest professional

levels, including at least a qualified lawyer and an auditor holding a recognised qualification. In practice, both the Investigative and Adjudicatory arms of the CFCB are comprised of membership from a varied professional background as possible, and people of high educational background and experience, from outside the immediate UEFA membership as evidenced in Appendix 6.

#### **4.4.2 License Administration**

The composition of the administrative arm of the licensing body is as crucial as that of the decision making arm. Each of the licensing systems discussed has a Licensing Administration which provides administrative support and also conducts the monitoring of the license implementation. It writes reports which form the basis of the decision by the FIB and the AB. Whilst the FIFA CLR recommends that the licensor would be responsible for setting up the license administration and appointing 'qualified staff members' it does not indicate the kind of qualification that a staff member should hold (FIFA, 2010; Art. 3.2.2). The UEFA CLR & FFPR on the other hand recognises both qualification and competence.

The SFA CLR (SFA, 2013, Article 2.5) is more precise about the background of the staff of the Licensing administration as it specifies that an expert each for Infrastructure, Legal, Financial and Coaching issues should be staff of the Licensing Administration. The requirement for the personnel of the licensing administration to be of a high order may be based on the premise that the quality of the human resource available to the regulator reduces the chance of a licence holder/applicant undertaking strategic behaviour in an attempt to

'game' the regulator, or 'capture' the regulator (Sappington, 1994; Veljanovski, 2010).

The governance role played by the Licensing Committee might suggest that it could be institutionally based, without the need for people with specific professional background, in contrast to the technical role played by the License administration. The regulation, however, suggest that the committee be made up of people appointed from within the list of Scottish FA Council members and a maximum of two co-opted members (possibly non-Executive Board members). This in no way guarantees the independence of the Licensing Committee from the Executive, even if an attempt is made to ensure that conflict of interest involving members of the Committee are dealt with on ethical grounds (SFA, 2013, Art. 2.4).

#### **4.4.3 Mode of Membership Formation**

FIFA gives the power to determine the members of the decision making bodies of the various Club Licensing Regulations to the respective national associations, whether through election or appointment. Appointment of the membership of the decision making bodies would seem more appropriate to ensure independence since election would perhaps create the unwanted situation of the membership trying to please its electoral base to ensure being retained on the body at the next election. For instance, Hansen (1999) suggests that appointed judges are more independent than elected judges. UEFA, the SFA and the Ghana FA all utilise an appointment process, although

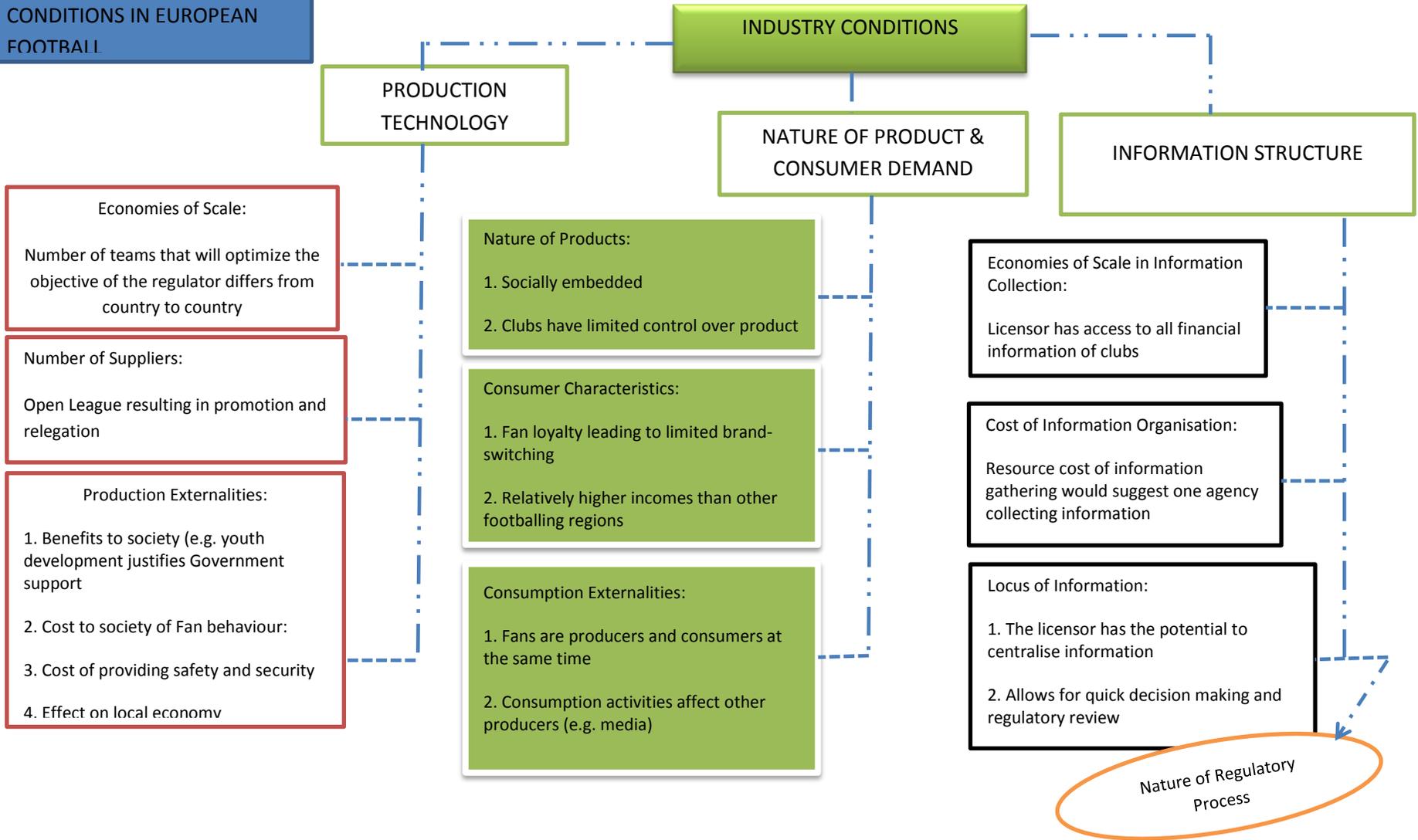
there is a risk that the person(s) wielding the power to appoint might abuse their powers of appointment, something which is not alien to Ghanaian football management and governance (Bediako, 2012).

#### **4.5 INDUSTRY CONDITIONS**

Figure 4.5 provides an overview of the industry conditions within the European football that affects the form of the regulations designed. The conditions in the industry within which the regulator operates - defined by the prevailing production technique, the nature of the product, the nature of consumer demand and the information structure - determine the scope, the form and function of regulation (Sappington, 1994). The production technology within the football industry is characterised by the joint-production of a game by clubs and the fans that generate the atmosphere (Hamil and Chadwick, 2010; Morrow, 1999). Economies of scale in production also exist resulting in differences in the number of teams that optimize the objective of the regulator in each league in the different countries. The feature of open-leagues that result in promotion and relegation in soccer in most parts of the world increases the incentive for clubs to gamble for success, thereby generating externalities for other clubs and the league (Storm, 2012).

Production externalities arising from fan behaviour create issues such as hooliganism and increased cost of provision of safety and security for society. For instance, regulation in football in the UK was initially framed around issues of public order (Greenfield and Osborne, 2010).

**FIG. 4.5: INDUSTRY CONDITIONS IN EUROPEAN FOOTBALL**



American football is believed to also boost the local economy of the host cities and towns generating incomes for other business as well as taxes for the local and state government (Coates and Humphrey; 2003; Noll and Zimbalist, 1997; Siegfried and Zimbalist, 2000). The promotion of Swansea FC to the English Premier League is estimated to worth £58 million and 400 jobs to the City of Cardiff in Wales, according to Prof. Calvin Jones of the Cardiff Business School (CBS, 2013)

Football, like most sports also provides opportunities for the youth away from the street and crime (Sandford et al, 2008). The positive effect of sport on responsible leadership amongst the youth, personal development, and life skills development (Theokas et al, 2008), and its ability to alleviate a variety of social problems (Coalter, 2007), all provide examples of the external benefit from the youth development activities of sports clubs. This would justify government subsidies to football as an attempt to internalise the positive externalities generated by football clubs through youth development (Bourke, 2011; Relvas, 2011; Senaux, 2011).

There are consumption externalities, as the consumption activities of football fans affect the production activities of the media. The media has an active role in creating the football product whilst the media also thrives on football. Most football organisations are product-led to such an extent that their success is judged by what happens on the field (Hamil and Chadwick, 2010). This feature of the football product and consumer demand, coupled with the realities of relegation and

promotion resulting from the open-league systems practiced in most European football federations means that clubs try to outspend each other in a 'rat-race' fashion.

The European football scene continues to be characterised by financial difficulties for several clubs despite the influx of capital (see, for example, Dietl et al, 2007; Gammelsaeter and Senaux, 2011; Hamil and Chadwick, 2010; Lago et al, 2007; Morrow, 1999); commercialism and professional marketing practices (Hamil and Chadwick, 2010); and increased foreign ownership of clubs. The unhealthy debt situation of some of the clubs have resulted from the increased competition to buy 'prized assets' in the form of highly priced players and the increased wage demands of players and their agents (Geey, 2011).

These defining features of the football industry in Europe have shaped the form of the UEFA CL & FFPRs which are an attempt by UEFA to deal with these specific features of the industry. The break-even conditions could be seen as an attempt to deal with player cost inflation and the funding of clubs by 'so-called benefactor owners' (Franck & Lang, 2013). Similarly, the financial regulation of football clubs in Ghana has to be determined by the peculiar industry conditions facing stakeholders.

## **4.6 SCOPE, FUNCTION AND FORM OF REGULATION**

This section deals with the scope, the function and the form of the licensing regulations reviewed.

### **4.6.1 The Scope of Regulation**

The scope of a regulatory framework relates to the extent to which it attempts to regulate a specific aspect of an industry's activities (partial regulation) or every aspect of firms in the industry's activities (comprehensive regulation). It also refers to whether all firms within the industry are covered, or only a defined group are regulated (Sappington, 1994). The UEFA CL & FFPR aims to improve the standards of all aspects of 'football in Europe' and to give continued priority to the training and care of young players in 'every club' (UEFA, 2012a, Art. 2.1a). However, only clubs which qualified to participate and seek to take part in UEFA Club competitions are required to undergo licensing. Also only clubs with 'relevant incomes' in excess of five million Euros are subject to the FFPRs.

It might be the ambition of many clubs to play in the competition due to its financial attraction, influencing them to change their business model to conform to FFPRs in anticipation of qualification. However, due to the balance of power amongst clubs in most European leagues only a few clubs in each country are able to qualify for the UEFA Champions League annually. For example, only six clubs finished in the top ten in the English Premier League over a ten-year period from 2001/02 to the 2010/11 season (Deloitte, 2011). Hence, only a small number of clubs would thus

ever require going through the regulatory process of the FFP. Thus limiting the licensing process only to clubs taking part in UEFA competitions might not 'improve standards in every European club' as anticipated by UEFA, and may suffer from under-inclusiveness, by not being able to include all entities it proposes to deal with (Diver, 1983).

This issue could be argued to be less of a challenge in Europe than, say, in Ghana where a number of clubs do not find the CAF Champions League as financially attractive as European clubs find the UEFA Champions League (GHALCA, 2010). The CAF Licensing framework (CAF, 2013, Art. 60) similarly deals only with clubs participating in CAF Inter-Club competitions, which may not serve as sufficient motivation for all Ghanaian clubs to conform to licensing rules. The Scottish FA however has a more comprehensive licensing system that affects every level of professional football. Scottish Premier League Clubs undergo both the National and UEFA Club Licensing, whilst Scottish Football League Clubs and the Scottish Highland Football League Clubs only undergoing the National Club Licensing (SFA, 2013, 1.2).

Setting financial thresholds in any system of regulation also runs the risk of arbitrariness (DeGeorge, Patel, and Zeckhauser, 1999). The choice of the EUR 5 million thresholds by UEFA, which admittedly might be a low figure in European football terms, is not necessarily based on any objective criteria. Inevitably, clubs just over the threshold are treated differently from other clubs just below the threshold. At the margins, there is a risk that this may provide the motivation for

some clubs to engage in creative accounting to ensure that they do not qualify for monitoring.

#### **4.6.2 The Function of the Regulation**

This section discusses the stated function of the reviewed regulations. Financial disclosure and financial management regulations within the reviewed frameworks are discussed.

##### Financial Disclosure

According to Sappington (1994), the function of regulation is either to inform consumers about the product, or to enforce input, process and output standards to protect consumers. Whilst Sappington (1994) did not explicitly argue that it is possible for a regulatory framework to do both, it could be argued that club licensing regulations do attempt to satisfy both objectives (FIFA, 2010; SFA, 2013; UEFA, 2012a). In order to ensure financial transparency and provide information to stakeholders of football clubs, the club licensing regulations require clubs to furnish the licensor with a minimum amount of information as contained in its audited financial statements as required by national legislation.

FIFA recognises that there are differences in the financial reporting requirements in different countries; reflecting differences in the context in which clubs operate. Moreover, the corporate governance structures in different countries may be different resulting in specific reporting requirements expected by different national legislation. As far as possible, FIFA requires the licensor to take into consideration

the national regulations on financial reporting i.e. in the case of Ghana the Companies Act, 1963 (Act 179). However, even when the existing national law falls short of the minimum requirement, the licensor is expected to ensure that the minimum requirements from FIFA are met.

FIFA (2010, Article F.01), UEFA (2012a, Article 47 & 48) and SFA (2013, Article 47 & 48) all define the minimum financial information (and relevant period) that should be submitted to the licensor by a club. It is the responsibility of the licence applicant to provide all information requested by the licensing authority. Significant changes that occur after an application has been made, or after a licence has been approved, should be communicated to the licensor. However, the inclusion of confidentiality clauses in the regulations relating to documents submitted for the purposes of licensing (*UEFA, 2012a, Article 11; pp.11*), suggest that the licensing process in itself may not generate adequate information on the financial state of the clubs for the public, unless these documents are also made available to the respective Registrar of Companies.

The level of financial disclosure across Europe differs greatly from one country to another. This obviously has implications for a pan-European system of regulation such as UEFA (2010a), which is meant to affect financial disclosure attitudes in the different countries. For example, in countries like England (and Scotland) a lot of financial information about clubs is conveniently available, both through reports like Deloitte's Annual Review of Club Finance (Deloitte, 2011) and directly from clubs or through Companies House. The Scottish FA even proposes to go further

in terms of transparency, planning to publish all the financial information it holds on its clubs, other than their debt position, on its website; a proposal which has been accepted by its member clubs (SFA, 2013). This is the closest any national association has come to full and transparent disclosure of financial information.

Morrow (1999, 2005) suggests that the improvement in the level of information disclosure in UK football might be as result of both the recognition of stakeholders beyond shareholders by clubs and the greater involvement of professionals in advising football clubs. Increased financial awareness among the football public as well as increased media interest in financial affairs of clubs, and the limited liability structure of majority of UK clubs have also contributed to enhanced disclosure (Morrow, 2005; 2013). This has led to an improvement in the ease of access to financial information on UK clubs, as discussed above.

The same cannot be said of every other European country though. According to Wilkesmann et al. (2011) German clubs are not required to publish their accounts based on their legal form. The licensing procedure is also controlled by the DFL, which is owned by the clubs themselves without any external control. The DFL is also not allowed to interpret the quality of the data provided by the clubs (Dietl and Franck, 2007). These issues limit the flow of financial information to the public, in turn undermining financial transparency. Andreff (2007) suggested that French clubs do not want their accounts to be disclosed except to the decision making body. Clubs are prepared to pay a fine for limited disclosure rather than make a full disclosure to the public. This is because according to Andreff, French football is characterised by financial wrongdoing such as:

“...false invoicing, hidden honoraria, fake club accounting and book cooking (despite DNCG audits), embezzlements, rigged matches and referee bribing, the use of “black bags” when transferring overseas players, fictitious player transfers hiding undisclosed money transfers, and abuse of social benefits...”

(2007, pp. 656)

In such a situation Andreff (2007) propose relegation for clubs who resist disclosure. He argues that proper financial disclosure would potentially limit the occurrence of some of the financial wrong-doing mentioned above. Despite the cost associated with financial disclosure, which may include the direct cost of producing the information and the potential loss of competitive advantage to rival firms, Admati and Pfleiderer (2000) suggest further that, in general, disclosure leads to efficient markets. It reduces the cost of capital, especially in financial securities.

To encourage firms to achieve socially optimal output levels Cogburn and Schneider (2003) propose a rational policy linking subsidies and other economic support from governments to firms to their performance. For football clubs this could include financial performance and financial disclosure. This suggestion should be very useful for the development of a financial regulatory framework that seeks to improve the financial environment within which clubs in Ghana operate. Government and FA financial support for clubs which show evidence of improved

financial management and transparency may be provided as incentive to encourage further effort in the same direction.

The financial licensing components of the licensing regulations under review also seek to stipulate standards in terms of the content of financial statements as well as the quality of auditing. In recognition of differences in accounting standards across Europe and to ensure inter-country comparability the UEFA CL & FFPR CLR stipulate that financial statements are to be audited based on the International Financial Reporting Standards (IFRS), as provided by the International Accounting Standards Board (IASB).

There remains an on-going debate as to whether football club financial statements (as required under these regulations) really speak to the needs of the various stakeholders of football clubs (Morrow, 2013). The financial statements required by the standard accounting codes more often than not, assume that the company is a profit maximizer (Sarpong and Gray, 1989). Football clubs may have several organisational objectives, and they may also have social roles that are subject to externalities. To that extent, the standard ways of determining their financial performance might be resulting in the underestimation of their performance (Morrow, 1999). Also, Morrow (2013) questions whether beyond submitting audited accounts for purposes of licensing by FAs, football clubs have accounts users similar to that of any other company. Even though they go through the same costly motions of preparing the accounts, Morrow (2013) suggests they may be engaging effectively in a 'dialogue of the deaf'. These seem to suggest that the

accounts of football clubs may have to be significantly different from that of the standard firm.

### Financial Management

The FFPRs also set financial management standards in terms of requiring clubs to live within their means and to not regularly spend more than their revenues (Bell, 2011; Flanagan, 2013; Geey, 2011; Lindholm, 2011). Article 58, Annex X (UEFA, 2012) states that “the break-even result for a reporting period is calculated as relevant income less relevant expenses”. Table 5.1 provides the composition of both relevant income and expenses.

<b>Table 4.1: The Concept of Relevant Income and Expenses in the UEFA CL &amp; FFPRs</b>	
<b>RELEVANT INCOME</b>	<b>RELEVANT EXPENSES</b>
<ul style="list-style-type: none"> <li>a) Revenue – Gate receipts</li> <li>b) Revenue – Sponsorship and advertising</li> <li>c) Revenue – Broadcasting rights</li> <li>d) Revenue – Commercial activities</li> <li>e) Revenue – Other operating income</li> <li>f) Profit on disposal of player registrations (or income from disposal of player registrations)</li> <li>g) Excess proceeds on disposal of tangible fixed assets</li> <li>h) Finance income</li> </ul> <p>Relevant income is decreased if the elements a) to h) in paragraph 2 include any items below :</p> <ul style="list-style-type: none"> <li>i) Non-monetary credits</li> <li>j) Income transaction(s) with related party(ies) above fair value</li> <li>k) Income from non-football operations not related to the club</li> </ul>	<ul style="list-style-type: none"> <li>a) Expenses – Cost of sales/materials</li> <li>b) Expenses – Employee benefits expenses</li> <li>c) Expenses – Other operating expenses</li> <li>d) Amortisation/impairment of player registrations and loss on disposal of player registrations (or costs of acquiring player registrations)</li> <li>e) Finance costs and dividends</li> </ul> <p>Relevant expenses are increased if the elements a) to e) in paragraph 3 include the item below</p> <ul style="list-style-type: none"> <li>f) Expense transaction(s) with related party(ies) below fair value.</li> </ul> <p>Relevant expenses are decreased if the elements a) to e) in paragraph 3 include any items below :</p> <ul style="list-style-type: none"> <li>g) Expenditure on youth development activities</li> <li>h) Expenditure on community development activities</li> <li>i) Non-monetary debits/charges</li> <li>j) Finance costs directly attributable to the construction of tangible fixed assets</li> <li>k) Expenses of non-football operations not related to the club</li> </ul>
<b>Source: UEFA Club Licensing and Financial Fair Play Regulations, 2012</b>	

The break-even requirements are considered a tailored approach based on the level of risk faced by the club (Bell, 2011), and ensure that it is no longer possible

for rich owners to cover the losses of clubs perpetually (Flanagan, 2013). It is reasonable to argue then that the exemption of infrastructure cost, youth and community development costs from the calculation of relevant expenses (see Table 4.1) is an attempt to re-direct club spending from risky assets such as player purchases to less risky and longer term assets (Franck and Lang, 2013). The UEFA FFPRs thus adopt a risk-based approach to regulatory design, similar to the form suggested by Black (2005). However, it could be argued that the exemption may also lead to club managers opting to undertake over-ambitious stadia development projects which may only add up to the long-term debts of the club. The FFPRs may thus reallocate expenditure away from player spending to other expenditures without necessarily improving current on-field performance, which might be crucial for the club's long-term financial success.

The break-even requirements have also been likened to a relative or implicit salary cap where each club has a different level of expenditure they cannot exceed (Lidholm, 2011; Morrow, 2013). This is different from the more common "absolute salary cap" under which all clubs are subject to the same capped amount. Geey (2011) suggest that regulations may limit expenditures on players in any given year.

### **4.6.3 The Form of the Regulation**

Sappington (1994) refers to the form of a regulation as encompassing: regulatory design; enforcement procedures; the locus of decision making in the regulatory arena; and the nature of the regulatory rules. The regulatory design could be either command and control, delegated decision making or potential regulation (see section 4.1.2). A regulatory framework could combine aspects of command and control and delegated decision making depending on the function of the regulation. The UEFA CL & FFP regulations and the Scottish FA regulations all combine aspects of the two types of regulatory design.

Appendix 7 and 8 provide an overview of the regulatory design and the locus of decision making within the regulatory arena for both UEFA and the Scottish FA. The monitoring is undertaken by the CFCB which has the power to refer any club for disciplinary measures to be taken against them in conformity with UEFA's disciplinary procedures (UEFA, 2012a, Article 72). Clubs sanctioned by the CFCB, however have a right of appeal to the Court of Arbitration for Sports (CAS).

The UEFA framework achieves regulatory compliance through the requirement for clubs and national associations to subject themselves to spot checks by UEFA through the compliance audits conducted by either UEFA or an appointed body of UEFA (Article 71). The effective use of third-party compliance audits could serve as a credible threat to associations intending to ensure that their member clubs participate in UEFA organised club competitions even where they do not meet specified criteria. A similar structure at the national association level would also

serve as a credible threat against club officials colluding with auditors to misrepresent financial figures.

Whilst equal treatment of clubs might be guaranteed within countries, it cannot be guaranteed across different UEFA member countries as national associations are given the power to determine the sanctions applicable to clubs that do not comply with the club licensing requirements. The range of sanctions that UEFA proposes vary from an attempt at coercion in the form of requiring further information, and deterrence in the form of fines and bans (Ayres and Braithwaite, 1992). This confirms the suggestions by Bell (2011) that the UEFA CL & FFP regulations adopt a risk-based approach to regulatory design (Black, 2005) in which the sanctions imposed are relative to the level of risk generated by the license applicant in terms of the size of relevant income and expense.

The Scottish FA has three different levels of licensing (section 4.6.1). The licensing administration undertakes all the auditing of documents and the compliance audit of the licence applicants (the clubs) on behalf of the Licence Committee, an independent body set up by the Executive Committee of the Scottish FA. The decision making bodies are the Licence Committee and the Appellate Tribunal (Judicial Panel) which makes decisions on the award of licence and appeals against the decision of the Licence Committee respectively.

The Judicial Panel has the power to fine, suspend or terminate the membership of a club from the SPL, SFL or any other recognised bodies (SFA, 2013, Article 35). The regulations define the range and scale of fines that could be imposed, with

clubs in higher levels of the league paying higher amounts for the same offence committed (SFA, 2013, Article 3.7). Thus, there is presumed to be equal treatment within leagues, but unequal treatment across league; similar to the fine structures in Ghana football (GFA, 2010a). Again this could be viewed as an attempt to adopt the risk-based approach of Black (2005); financial failure of clubs in higher leagues potentially pose greater problems for the stability and integrity of the leagues compared to those in the lower leagues.

The Scottish regulations incorporate a process of regulatory review and modification as indicated by the presence of a group of experts who continually review the reports of the licencing administration and the decision-making bodies. This would imply that the regulations could be considered as 'really-responsive' regulation (Baldwin and Black, 2008), as they allow the regulator to respond to changes in the circumstances, objectives and priorities of the regulator on an on-going and continuous basis. This process, though not explicitly contained in the UEFA CL & FFP regulations, could be undertaken by the CFCB whose investigative activities would result in a review of industry conditions, the institutional environment and the resources available to the regulator to inform future regulatory reform (Sappington, 1994). Setting up a different body from the financial regulator to undertake this review in a resource-constrained environment like Ghana, would, however, be an inefficient use of resources.

The nature of the regulatory rules is contained in the procedural rules defined in both the UEFA CL & FFP regulations and the SFA CL regulations. The procedural rules incorporate the deadlines; the application of the principle of equal treatment;

right of representation, appeal, and to be heard; and the type of evidence to be requested, as determined by the decision making bodies. Other issues relating to the procedural rules in the regulations under review include the burden of proof; the grounds of complaint by appellant; the form of the deliberations and hearings; as well as the cost of the processes of the decision making bodies.

Within the UEFA CL & FFPRs extensive rules are also made describing each of the regulatory deadlines in both the licensing (Articles 7, 8 and 9) and the monitoring process (Articles 43, 47, 54, 55, 62 and 64). The Scottish regulations also provide extensive information on procedural deadlines consistent with UEFA guidelines, ensuring definiteness of the process, including of an appeal.

Both the UEFA and Scottish licensing and monitoring frameworks attempt to safeguard the principle of equal treatment by requiring the decision making bodies - that is the first instance and appellate tribunals [UEFA, 2012a, Article 5(4) f, 7(10) b and 11(1)] and the CFCB [Articles 53(2) and 55(2)] - at each stage to treat all applicants equally and fairly. However, that the requirement for clubs playing in Europe to have to go through a more rigorous set of monitoring requirements from that of their domestic rivals might be considered to reduce their financial and business autonomy, which in turn may distort competition within a domestic league. This would then defeat the principle of fairness, which is at the core of the FFPR, within domestic leagues. Meanwhile the perception of fairness of the application of the regulations would determine the motivational posture of the firms in response to regulation (Baldwin and Black, 2008).

Secondly, widely differing tax rates and social security costs across Europe would also mean that financial performance based on break-even conditions means different things across Europe. For example the tax on sports income is 50% in England and 23% in Spain. An extreme example is clubs based in the tax haven of Monaco. Here there is zero income taxation for its resident players (Genta, 2010), which means that clubs could attract marquee players without having to spend as much as their counterparts in other parts of Europe. Thus whilst they could achieve on-field success in the UEFA competitions, their rivals from other countries might not be able to get the same quality without breaching FFPR rules.

The right of appeal against the decisions of any UEFA organ or licensor during the licensing and monitoring process is enshrined in the UEFA regulations. Article 7 provides information on who could file an appeal, when an appeal could be filed, conditions under which an appeal could be filed and the process of filing the appeal and its effect. Annex 1 (C8) and Annex IV (7) provide for an applicant taking part in the monitoring process to appeal to the Court of Arbitration for Sports (CAS) in respect of a decision by the CFCP. This right was duly taken up in the case of Malaga, albeit, unsuccessfully (see section 5.3.3). In respect of the licensing process UEFA provides the licensor (National Association or League) the power to determine whether an appeal would have a delaying effect or not.

## **4.7 SUMMARY AND CONCLUSIONS**

This section provides a summary of the discussions and the conclusions drawn for the development of a financial regulatory framework for professional football in Ghana.

### **4.7.1 Summary**

The main aspects of Sappington's framework were used to shape the analysis of the existing framework in this chapter. The main frameworks reviewed include FIFA (2010), SFA (2013) and UEFA (2012a). Lessons were also drawn from the German and French experience in club licensing.

UEFA's Financial Fair Play rules seek to achieve long-term financial soundness, thereby ensuring the long-term viability of European football. These are consistent with Sappington's listed regulatory objectives (see section 4.2). In order to foster industry development and investment, the club licensing frameworks encourage clubs to invest in youth and infrastructural development. They also aim at safeguarding the credibility, continuity and integrity of club competitions. The frameworks also encourage clubs to employ the right calibre of personnel to ensure improvements in professionalism. In order to provide safe and quality services to stakeholders, the regulations all seek to promote transparency in the finances of the club, allowing stakeholders to obtain the information necessary to make assessments as to whether clubs are being run efficiently. All the licensing

regimes aim at ensuring equitable outcomes by protecting creditors of clubs, be they players, other clubs or social/tax authorities.

UEFA's attempt to moderate the flow of income to clubs from 'sugar-daddy' investors may be an attempt to reduce the financial risks associated with investment in risky assets. The FFP regulations also aim at promoting least cost production by indirectly limiting the sums of money that clubs may spend on wages. The counter argument however, is that the FFP rules may in fact restrict the opportunity for investment into football clubs, especially the smaller ones.

The review has highlighted the importance of the independence of the decision-making bodies in respect of licensing and monitoring. A pre-defined tenure of the financial regulatory body which could be renewed without limit provides the necessary confidence and independence of the regulator to allow it resist regulatory capture. There is evidence of a high degree of delegation of responsibility in respect of decision-making between FIFA, the Confederations, the NGBs and the Licensing bodies.

The importance of the quality of the human resources available to the regulators in the frameworks that have been reviewed was evident. Qualified personnel from the relevant financial fields are as important as industry experts to the success of the regulatory framework. Appointing only industry experts from within increases the chances for the existence of conflict of interest. The quality of the complementary control institutions such as the judicial bodies of the national

federation would also determine the extent to which the objectives of financial regulatory framework are achieved.

The football industry is characterized by economies of scale in production, as well production and consumption externalities. These would provide a rationale for external intervention, for example, to deal with the provision of safety and security. UEFA's regulations are an attempt to deal with the specific features of the European football industry. For instance the break-even conditions could be seen as an attempt to deal with player cost inflation and the trend towards funding of clubs by 'sugar-daddy' owners.

Most regulatory frameworks combine aspects of command and control, and delegated decision-making depending on the function of the regulation. The UEFA CL & FFP regulations and the Scottish FA regulations all combine aspects of the two types of regulatory design.

#### **4.7.2 Conclusions**

The objective of the review done in this chapter provides valuable lessons for the development of a context-specific financial regulatory framework for professional football in Ghana. Firstly, it is essential that the objectives of the regulatory framework are clearly defined as this would shape the form and the function of the regulation. Secondly, the regulatory design process must take into consideration the resources – human, financial, and physical – of the regulator, in order to

determine how comprehensive the scope of regulation should be. The resources would also determine the most effective regulatory enforcement instrument to be utilized as it would affect the commitment ability of the regulator.

Thirdly, it is essential that the independence of the regulatory body be guaranteed. This would be achieved through the quality of personnel appointed to serve on the board of the regulator (Esteve et al., 2011; Ferkins and Shilbury, 2012), the mode of selection of the membership and the security of tenure of the membership of the regulatory board. Fourthly, the quality of the complementary control institutions is crucial to the success of the financial regulator. For instance the ability of the league management to effectively regulate all other aspects of the clubs' operations, would allow the financial regulator to limit itself to the financial management of the clubs.

Finally, the regulatory framework could combine aspects of both command-and-control and an incentive-based delegated decision-making approaches to regulatory design. It is therefore reasonable to argue for the introduction of a regulatory body that ensures that financial licensing and monitoring are complemented by incentives such as access to credit and the provision of support services to clubs.

The lessons from this review would be combined with the conclusions that would be drawn from the review of Ghanaian football finance in the next chapter to develop a draft financial regulatory framework for professional football in Ghana.

# CHAPTER V

## REVIEW OF GHANAIAN FOOTBALL FINANCE

### 5.1 INTRODUCTION

The objective of this chapter is to evaluate the financial disclosure practices of Ghanaian professional clubs. It is also to evaluate the financial position and performance of the clubs to assess whether they are financially viable entities. The focus of this chapter is on the published financial statements of Ghanaian professional football clubs. The results from this chapter are then utilized as part of the industry conditions and institutional environment for developing the FFC framework at the conceptual level. There are two main components of the chapter. The first part of the chapter concentrates on the quality of financial reporting and disclosure, assessing the credibility, consistency and comparability of the reports submitted to the FA. It measures the performance of the clubs using the Ghana National Accounting Standards (GNAS) as the benchmark.

Notwithstanding the limitations set out in the first part of the chapter, in the second part the first detailed review and analysis of the financial position and performance of Ghanaian football clubs is provided. The chapter also summarizes the evidence on other issues affecting the financial management of clubs in Ghana. These include the low utilization of formal sector credit; unpaid player transfer debts; low levels of sponsorship activities; and the effect of participation in CAF organized inter-club competitions on the financial position of clubs.

## **5.2 QUALITY OF FINANCIAL REPORTING BY GHANAIAN**

### **PROFESSIONAL CLUBS**

This section discusses the information disclosure practices of Ghanaian professional football clubs, focusing primarily on the submission of audited financial statements to the FA. It reviews the credibility of the submitted financial statements by analyzing the contents of a sample of these financial statements. This section also provides an analysis of the accounting treatment adopted by clubs in two specific areas which affects the comparability of the financial statements of different clubs and the reported financial performance: namely, of the amortization of player recruitment cost and depreciation of fixed assets.

#### **5.2.1 Submission and Storage of Accounts**

The Ghana Football Association (GFA) requires all premier league clubs to submit their audited financial statements to it prior to the commencement of the new season (GFA, 2012, Article 8.2). Ostensibly this allows the FA insight into the financial management of clubs in furtherance of the financial control powers it exercises over the clubs provided for under Article 40 of the GFA R & R (GFA 2012, Article 40).

One major challenge in the submission process in Ghana is ambiguity over which version of a club's financial statements should be submitted to the FA. According to the Article 8.2 (GFA, 2012) the audited financial statements to be submitted at

the start of a particular football season are those for the year preceding the recently completed league season. Thus, prior to the commencement of the 2012/13 league season, clubs were obliged to submit audited accounts for the year ending within 2010/11. With different clubs having different financial years, the regulation seems ambiguous as to the exact version of a club's account to be submitted. This sits in contrast to the clarity offered by UEFA's regulation (UEFA, 2012a), which provides as an example, the monitoring period assessed in the licence season 2015/16 covers the reporting periods ending in 2015 (reporting period T), 2014 (reporting period T-1) and 2013 (reporting period T-2). Thus the financial statements required are those for the period T-1 and T-2.

In 2011, some clubs in Ghana had their financial years ending in June, August, October or December. Hence, for each of these clubs licensing would be based on accounts from different years. For example, the lack of clarity ensured that for the 2012/13 season, whilst some clubs submitted accounts for the year ending June 30<sup>th</sup>, 2011, others submitted accounts for the year ending December 31<sup>st</sup>, 2010 or June 30<sup>th</sup>, 2012. Thus by the time they are submitted to the FA, most financial statements of clubs are most certainly not timely and not necessarily relevant, despite these being basic requirements for accounts to be useful (Morrow, 2013, Siciliano, 2003). From a practical point of view, this makes the compilation and analysis of financial performance for Ghanaian professional football clubs difficult.

The GFA utilize a deterrence approach (section 2.7.1) to achieve regulatory compliance; imposing quite severe punishments for non-submission of the audited accounts within the timeframe provided for by the Association (GFA, 2012; Article

8.2). A club that fails to submit its audited financial statements is punished with the forfeiture of its match (GFA, 2012, Article 34.1j). The club would be considered to have lost its first match of the season and its opponents credited with 3 points and 3 goals. The forfeiture clauses in the regulations have been invoked several times in the recent times, especially for the non-payment of fines and the fielding of unqualified players. During the 2012/13 season RTU lost accumulated points for fielding unqualified players. Berekum Arsenals also lost points for non-payment of fines within stipulated period. This has ensured that there is haste by clubs to submit audited financial statements before the commencement of the season.

For the purposes of this research, a formal request was made for the audited financial statements submitted by clubs for the period 2005/06 to 2011/12 league seasons; a request was approved by FA Emergency Committee in March 2012. By March 2013, only 45 reports from 19 different clubs had been retrieved as against the 112 financial statements which should have been submitted during that period. Making a concession for three newly promoted clubs which cannot supply previously audited accounts each season because their legal form in Division One does not require them to prepare accounts, 91 sets of audited accounts should have been submitted by 13 clubs during the stated period).

The GFA official responsible for the storage of the submitted financial statements (a Deputy General Secretary of the Football Association) told the researcher that he was unable to locate several of the submitted financial statements because the storage facility was relocated to another room within the same building. However, he indicated that no club had ever been penalized for non-submission during the

period under consideration, assuring the researcher that all clubs who are supposed to deposit financial statements had complied annually.

### **5.2.2 Credibility of Accounts**

Out of the 45 sets of audited financial statements obtained from the FA for the purposes of this study, six of the reports, belonging to 4 different clubs were rejected and not utilized in the study due to various anomalies detected. One club submitted an identical report to the GFA for each of the years 2006, 2007 and 2008, merely changing the year on the cover sheet. All the information contained in the document was identical to the information in the club's audited financial statement for the year ending 31<sup>st</sup> December 2006. The headline dates indicated 2005 and 2006, leading to the conclusion that those documents were not credible enough to be included in the analysis.

Analysis of financial statements for the year 2010 revealed that two clubs had identical figures for every line item, even though the clubs are of markedly different size, indicating the possible submission of fraudulent documentation by one of them. Further checks in the document revealed that names of players attached to the notes to club A's financial statements as the list of players purchased for that season, were actually players purchased by club B. One interpretation is that club A had copied the financial statements of club B, changed the cover and submitted it as its own, in order to beat the reporting deadline in order to achieve legitimacy by being seen as conforming to laid down regulations (Morrow, 2006). The act of

misrepresenting the financial statements of the club may also have been done in anticipation that the content of the statements might not be subject to review. Club B's financial statements were utilized in the analysis, whilst that of club A was rejected on the grounds of likely fraudulent submission. Two other sets of accounts were also rejected as they were neither signed by the auditors nor the directors of the club, even though they had been duly accepted by the FA upon submission. The remaining 38 accounts were deemed to be credible and these reports formed the basis of the subsequent review of financial statements whose outcome is discussed in the sections that follows.

### **5.2.3 Content of Accounts**

Incorporated Ghanaian clubs are bound by the Companies Act, 1963 (Act 179: Article 123-136) which requires directors of companies to keep books of accounts and circulate balance sheets, profit and loss accounts and other reports to all members within a specified time period. The details of the required content of these documents are specified in the 4<sup>th</sup> Schedule to the Act. The Ghana National Accounting Standards (GNAS) issued by the institute of Chartered Accountants Ghana (ICAG), to which most of the auditors of the reports reviewed for this study refer, mirrors the standards in the International Financial Reporting Standards (IFRS). It requires that a set of financial statements should include a Directors' Report; Auditor's Report to the members of the company; Profit and Loss account; Balance Sheet; Cash Flow Statement and Notes to the Financial Statements.

The GNAS thus provides a framework for assessing whether a club is meeting information disclosure requirements. The financial statements of the clubs (n = 38) were reviewed to determine the extent to which the financial reporting and auditing which was disclosed had been done in accordance with Act 179, and the GNAS framework. Table 5.1 below provides an overview of the quality of the content of the various sections of the financial statements reviewed.

<b>Table 5.1: Quality of information in Financial Statements</b>												
<b>Quality of Content</b>	Balance Sheet		Income & Expenditure Account		Cash Flow Statement		Notes to Financial Statement		Directors' Report		Auditor's Report	
	No.	percent	No.	percent	No.	percent	No.	percent	No.	percent	No.	percent
<b>None</b>	-	-	-	-	22	58	-	-	7	19	-	-
<b>Limited</b>	19	50	19	50	2	5	9	23	21	55	22	58
<b>Detailed</b>	19	50	19	50	14	37	29	77	10	26	16	42
<b>Total</b>	38	100	38	100	38	100	38	100	38	100	38	100

**Source: Financial Statements of various clubs between 2006 and 2012**

### Directors' Report

The GASB standards and Article 132 of the Companies Act, 1963 (Act 179) provide guidelines on the contents of the Directors' Report for companies in Ghana and this is adopted by this study for the purposes of this review. A Directors' report in an audited set of financial statements is considered detailed if it provides information on the nature of the company's business, and whether this has changed during the year under consideration or not. It also has to include a

summary of the state of the company's affairs, including results of operations, and whether the directors recommend the distribution of part or all of dividends for the year. A detailed directors' report would also indicate the acknowledgement of the responsibilities of the directors to ensure that the accounts represent a true and fair view of the state of the company, as well as providing comments on the appointment of auditors. On the other hand where most of this information is absent or has little relevance for the company's activities for the year under consideration the report is considered to be 'limited'.

Figures from table 5.1 shows that out of the 38 financial statements reviewed 7 of them (19% of the sample) had no Directors' report attached. Whilst 21 clubs (55%) had limited information, only 10 clubs (26%) disclosed information considered detailed enough to be useful for outsiders seeking information on the financial situation of the clubs. Thus majority of the clubs paid little attention to the content of the Directors' report, and for some of them the same information continues to be repeated annually.

### Auditor's Report

The review in this section is based on the requirements of both the GASB framework and Article 133 of Act 179. Clause 1-5 of the Fifth Schedule to the Act also provides the mandatory requirements for an auditor's report. The mandatory requirements are that the auditor's report should include a statement indicating whether or not: the auditors have obtained information and explanations necessary for the audit to be conducted; proper books of accounts have been kept by the

company; the balance sheet is in agreement with the book of accounts; and accounts give a true and fair view of the state of the company's affair and profit and loss position of the company.

An auditor's report is considered 'detailed' if it meets all the mandatory requirements of the Act, and if it contains information on the responsibilities of directors and auditors in the audit process, as well as the basis for the opinion of the auditor expressed in the report – both of which are required by the GASB framework. The report should also mention the auditing standard or framework (example the GASB or IFRS) on which the audit is based. In this respect, only 16 (42%) of the 38 reports reviewed could be considered as detailed. 22 of the financial statements have auditors reports that do not make any statements that could be considered specific to the firm or accounting period under consideration. These reports are thus classified as 'limited' as they could have been carried over from another company's report or repeated from a previous year.

#### Profit and Loss Account Disclosure

Different firms around the world have different ways of referring to the Income Statement (Siciliano, 2003) and this may also be a reflection of their organizational structure. So while a company in the UK is obliged to produce a Profit and Loss account a non-profit organization may produce what is called an Income and Expenditure Account. Similarly a Ghanaian club which is incorporated as a company limited by guarantee is considered by the Companies Act, 1963 as a non-profit organization and as such is required to produce only an Income and

Expenditure account. On the other hand, clubs whose liabilities are limited by shares are obliged by Clauses 1-12 of the 4<sup>th</sup> Schedule to Act 179 to draw up Profit and Loss Accounts annually, along with detailed mandatory information.

Whilst some clubs correctly referred to the Income and Expenditure Account (Lions) or the Profit and Loss Account (Liberty) depending on their organizational structure, Hearts of Oak, which is limited by shares submitted a Statement of Comprehensive Income instead of a Profit and Loss Statement. The apparent confusion might be an indication of lack of adequate appreciation of financial disclosure principles within Ghanaian football. Kotoko which is limited by guarantee and as such a non-profit company also produced a statement of Comprehensive Income instead of an Income and Expenditure Account. Others simply referred to them as income statement (Tema Youth and Aduana).

The information in the Profit and Loss account is considered 'detailed' if it organizes the sources of income into key components such as gate receipts; sponsorship and advertising; broadcasting rights; commercial; and other operating income as in Annex VI of UEFA (2012). It should also state the key components of expenses, and other items such as profit/loss on disposal of assets; profit/loss on disposal of intangible assets – players, finance costs and tax expense. Whilst 50% of the accounts had profit and loss accounts that could be considered as detailed, the other 50% had only limited information with majority of them referring a reader to the notes attached to the financial statements. Thus information that could easily have been presented in the main document is seemingly obscured by its placement in the Notes to the Financial Statement, contrary to the specification of

Clause 1-12 of the 4<sup>th</sup> Schedule to Act 179 which specifies what items are to be discussed in the main Profit and Loss Accounts. This might be an indication of an attempt by club managers to bias the opinion of accounts users.

### Balance Sheet Disclosure

Siciliano (2003) defines the balance sheet as an itemized statement that summarizes a firm's assets and liabilities at the end of a year. Clause 14 of the 4<sup>th</sup> Schedule to Act 179 provides a list of the mandatory requirements which, where applicable to a company must be distinguished. These include, among others, interests in land, goodwill, patents, trade-marks, development expenditure, and other intangible assets. Others are trade investments; loans and advances; trading stocks, trade debtors; bills of exchange and promissory notes; payments-in-advance; marketable securities; and cash in hand and in the bank.

Whilst some of the above items may not be relevant for a football club's Balance Sheet, a 'detailed' balance sheet should provide information on the various categories of current and non-current assets of a firm, as well as the liabilities as at the date the balance sheet is drawn up. Information on the financing of the net assets of the firm should also be provided in the balance sheet. Without these the balance sheet cannot be considered as complete. Exactly 50 % of the accounts reviewed could be considered as detailed with the remaining statements providing only limited information on the various components of the assets and liabilities (Table 5.1).

### Cash-Flow Statement

The Companies Act, 1963 (Act 179) makes no explicit reference to the submission of a Cash Flow Statement as part of the financial statements of a company registered under the act. Most clubs therefore do not include a statement of cash flows, even though this is in violation of the GNAS, which forms the basis for the accounting disclosures made. The GNAS requires companies, irrespective of size to submit a Cash Flow Statement that provides details on cash flows from operating, investing and financing activities, as well as information on the flow of cash and cash equivalences.

About 58% of the statements reviewed do not include any Cash Flow Statement making the cash flow statement arguably the most ignored part of the financial statements of football clubs in Ghana (see Table 5.1). Whilst 5% of the statements provide only limited information on the cash flows of the clubs, only 37% of the reviewed documents have detailed cash flow statements that outline the clubs' cash flow from operating, investing and financing activities, as well as information on cash and cash equivalences.

#### Notes to the Financial Statements

The notes to a set of financial statements are considered as an integral part of the statements. For example, Annex VI UEFA (2012a) provides a detailed guideline to how the notes to the financial statement of a football club should be treated. Detailed notes would, at a minimum provide information on the accounting policies utilized in the preparation of the notes; how tangible and intangible fixed assets (such as goodwill and amortization of player values) are treated in the accounts.

Other key issues that should be reported on in 'detailed' Notes to the Financial Statement would include related party transactions, controlling party, and contingent liabilities as defined by Clause 3 of the 4<sup>th</sup> Schedule to Act 179.

The majority of the financial statements reviewed for this study provide most of the breakdown of income and expenditure in the notes, in contravention of the requirements of Clause 1 of the 4<sup>th</sup> Schedule of Act 179, which defines which income and expenditure items should appear in the Profit and Loss Accounts. Thus even though the information might still be contained in the financial statements, it could be considered to have been wrongly placed.

### Summary

The discussions in this section show that majority of the clubs pay little attention to the content of the Directors' report, and for some the same information continues to be repeated annually. It seems a common practice that majority of the information meant expected to be included in the main income statement is to some extent at least, obscured by its placement in the Notes to the Financial Statement.

The cash flow statement arguably is the most ignored part of the financial statements, consistent with existing research which shows that historically the cash-flow statement is given little emphasis in the financial statements and annual accounts of companies worldwide.

#### **5.2.4 Consistency in Accounting**

A review of the 38 accounts show that four out of the 19 clubs have changed their financial year, in each case, as the clubs indicate in the financial statements, to align it with the changes in the FA's football season which runs from July – May of the following season, beginning in 2007. Five out of the 19 clubs also changed auditors over two audit periods, without any note being made in the accounts as to whether this was done in conformity with Clause 135 (1-6) and Clause 136 (6) of Act 179. In most cases they also ended up with a new format of accounting, and invariably only one year's accounts with no comparative figures from prior year, in contravention of GNAS.

Changes in a club's financial year or in its auditors within a short period may sometimes be a sign of an attempt by a club to engage in manipulation of figures or to hide the true financial condition of the firm (Gasking, 1999). Creative accounting is an attempt by accountants to manipulate financial figures to give a misleading or illusory impression of the company's position of performance, utilizing their knowledge of accounting rules (Morrow, 2006).

Four sets of accounts also showed figures for 2010 in the accounts for the year ending December 31<sup>st</sup>, 2011 being different from the figures for 2010 in the accounts for the year ending December, 31<sup>st</sup>, 2010, without any comment on adjustments for prior year. Whilst these numbers might not be large, the evidence draws attention to the existence of such practices which goes against the doctrine

of materiality that underpins financial management and reporting around the world (Stewart, 2007).

### **5.2.5 Comparability**

This sub-section discusses the existence or otherwise of comparable figures from prior years in the financial statements assessed. It also discusses how the cost of recruiting players and the depreciation of fixed assets are treated within the various clubs' financial statements.

#### Existence of Comparable Figures from Prior Year

A key feature of a good financial statement is that it provides financial information from prior years to allow for horizontal financial analysis to be made. Providing comparable figures for the previous year allows a reviewer to make comments as to whether there has been an improvement or deterioration in the position and performance of the club. Out of the 38 financial statements reviewed, ten sets had no comparable figures included therein. In each of these reports a claim is made that the said financial statements were the first for the club, and as such no comparable figures exists. However, 3 of the clubs making these claims had submitted financial statements to the FA in the previous year, claiming on that occasion that it was also the first set of financial statements of the club. In each of these instances, the clubs had changed auditors from the prior year. The lack of comparable data might also signal an attempt by some clubs, albeit a few, to conceal financial information from relevant stakeholders.

### Treatment of Player Recruitment Cost

Similar to the treatment of depreciation of fixed assets by the clubs, the varied treatment of player recruitment costs in the financial statements makes comparability of accounts difficult. Player recruitment costs in the Ghanaian context include the transfer fee and the sign-on fee. The transfer fee is paid to the player's previous club as compensation for early termination of contract, and for training and development in accordance with the relevant FIFA statutes. The sign-on fee which is sometimes referred to as the 'enticement fee', on the other hand, is part of the emoluments that a player is expected to earn over the lifetime of his contract with the club and is paid in advance to the player. Thus, apart from the wages and salaries negotiated between the club and the player, the club also agrees a signing on fee with the player.

According to the report of the Player Status Committee of the FA, which was contained in the General Secretary's report to Congress (GFA, 2010) at the end of the 2009/10 soccer season, the majority of the cases involved unpaid signing-on fees for players whose contracts had been unilaterally terminated at the end of a season by the clubs. The signing on fee was meant to be paid to the player at the beginning of the contract, implying that even when the player's contract is terminated before its maturity, the player would have earned monies for which no services would subsequently be rendered. Recently however, clubs like Kotoko agree to pay the signing-on fee on a pro-rata basis, in equal installments over the duration of the player's contract such that the un-served part of a player's contract is not rewarded on the termination of the contract.

The distinction between the transfer fee and the signing-on fee as components of the player recruitment cost, is crucial in determining whether all recruitment cost could be capitalized in the balance sheet as an intangible asset. The signing-on fee, as part of the emoluments of the players, cannot be capitalized as assets and have to be expensed immediately through the profit and loss accounts. The proportion of the signing-on fee expensed through the profit and loss account would depend on whether the sign-on fee is paid pro-rata or all paid up front. The transfer fee on the other hand represents the investment made by the club in the player's future services and is commonly capitalized as an intangible fixed asset (Morrow, 1999, 2006). UEFA's Club Licensing regulations gives clubs the choice to either capitalize the cost of player acquisition or expense it through the profit and loss account (Morrow, 2006).

The review of the financial statements shows that there are five different ways in which Ghanaian clubs treat player recruitment costs. Type I is employed by Ashgold which is a subsidiary of the gold mining giant, AngloGold Ashanti and is audited by the reputable international audit firm, Ernst &Young, and which hence might be expected to be more likely to adopt international auditing standards. The total recruitment cost, including the transfer fee is capitalized as an intangible fixed asset and amortized on a straight line basis over the period of the player's contract. The value of the player is also assessed annually for impairment to obtain the net book value. This treatment conforms to the requirements of the UK accounting standard FRS 10 as discussed by Morrow (2010).

Type II is similar to Type I in all respects except that the amortization is not done over the contract of the player but is done on a straight line basis at a fixed rate, an example being the 20% utilized by Aduana. This treatment seems to suggest that the player would still be of value as an asset to the club over a five year period, even though the club indicates that the average contract duration of its players is three years. Thus the club may be carrying on its books, the value of an asset which no longer belongs to it after three years. Type III, which is utilized by Kotoko, suffers the same weakness as Type II as it only capitalizes the value of both the transfer fee and the sign-fee as non-tangible fixed assets without any attempt to amortize or re-value for impairment. Thus the club's assets might be over-valued and, like type two, include values of players that are no longer with the club or whose contracts have expired.

The difference between Type III and Type IV is that the latter amortizes the entire recruitment cost over the period of the players' contract without any attempt to re-value the assets for impairment which occurs on an annual basis as the player ages. This is the amortization method utilized by clubs such as Medeama and Wa All Stars. The Type V method, which is the most popular amongst the rest of the clubs, is to expense the entire recruitment cost through the profit and loss accounts creating a profit position which, arguably, is grossly understated. This treatment resonates with the amortization procedure existing in the English Football prior to the Bosman ruling, as discussed in Morrow (1999) and which is still considered as an appropriate accounting treatment in some countries in Europe.

## Depreciation of Assets

This section discusses the treatment of fixed assets in the financial statements of different clubs. Table 5.2 shows the rate of depreciation for land/building, motor vehicles, sportswear/equipment and office furniture and equipment used by different clubs in their financial statements as at the end of December 2011.

Item	CLUBS								
	ADUANA	ALL STARS	ARSENAL	CHELSEA	EDU	HEARTS	KOTOKO	LIBERTY	LIONS
<b>Land/Building</b>	n/a	n/a	n/a	10	5	3	n/a	10	n/a
<b>Motor Vehicle</b>	-	20	15	25	20	20	20		25
<b>Sportswear/equipment</b>	50	20	-	25	20	10	-	20	-
<b>furniture/office equip.</b>	20/(15)	n/a	10	25	15	20	7.5/(10)	20	10

**Source: Financial Statements of Clubs for year ending December, 2011**

Depreciation rates for land/building range between a low of 3% by Hearts and a high of 10% by Chelsea. Motor vehicle depreciation also ranges between 15-25%, whilst the rate on sportswear and equipment ranges from a low of 10% utilized by Hearts and 50% of Aduana. Kotoko's 7.5% depreciation of furniture and office equipment is the league low whilst the 25% utilized by Chelsea is on the other extreme.

Only Aduana and Kotoko differentiate between computers (and accessories) and other furniture and office equipment in respect of depreciation rates. Meanwhile, whilst Kotoko utilizes a higher rate for computers (and accessories) relative to

other office furniture/equipment, Aduana does the opposite. Whilst these practices may be acceptable, it makes comparison of the assets base of the different clubs difficult.

## **5.3 FINANCIAL PERFORMANCE AND POSITION OF GHANAIAN PROFESSIONAL CLUBS**

The objective of this section is to discuss the financial position of Ghanaian professional football clubs in respect of the revenue and expenditure. It also provides a discussion of the financial position of the clubs based on the most recent financial data available. The section also discusses the debt profile of clubs in relation to the assets of the club. It thus provides an overview of the financial difficulties faced by the clubs; something which may be similar to the problems of European football but with a few contextual peculiarities.

### **5.3.1 Revenue**

The study estimates that total league revenues reduced by about 5% from GHC10.3 million in 2010 to GHC9.8 million in 2011 (Table 5.3). The drop in total revenue was on account of an almost 20% drop in gate revenues from GHC 1.672 million in 2010 to GHC1.338 million in 2011. Sponsorship revenues are, however, estimated to have increased by 23% from GHC3.795 million to GHC4.68 million between 2010 and 2011, offsetting to some extent, the decline in gate revenue. About 40% of the premier league clubs experienced a decline in total revenue between 2010 and 2011 even though increasing sponsorship revenue was anticipated to lead to increase in total revenue for clubs.

## Sources of Revenue

The falling attendances for the clubs implies that gate revenue continues to be a declining share of total revenues, falling from 17.7% in 2010 to 15.6 % in 2011. Table 5.5 provides estimates for average attendance, average gross revenue and the share of revenue going to the home clubs. Average attendance for majority of the clubs is below 1000 per match, especially when they are not playing Kotoko. It ranges from 389 for Wa All Stars to 35,282 when Kotoko plays Hearts of Oak in Kumasi. Most clubs rely on their game against Kotoko to raise the highest amount of match revenue, making Kotoko the attraction for the league. All the clubs more than double their gross revenue and their share of the gate proceeds when they play Kotoko.

The average spectator spends the most amount of money (GHC 6.06 which is the equivalent of £2.00) to watch a Kotoko-Hearts game in Kumasi, and the least (GHC2.01, the equivalent of £0.65) to watch Liberty Professionals play at home in a match that does not involve Kotoko (see Table 5.5). Due to the level of VAT charged, the cost of hiring the stadium, the operational expenses incurred in organizing a match, and the shares of revenue paid to the FA and allied bodies (PLB & GHALCA), the average club obtains less than 50% of the gross revenue made at the match. Whilst Edubiase could earn as much as 56% of the gross revenue from their home matches, Liberty Professionals take home only 24% of the total proceeds from their games.

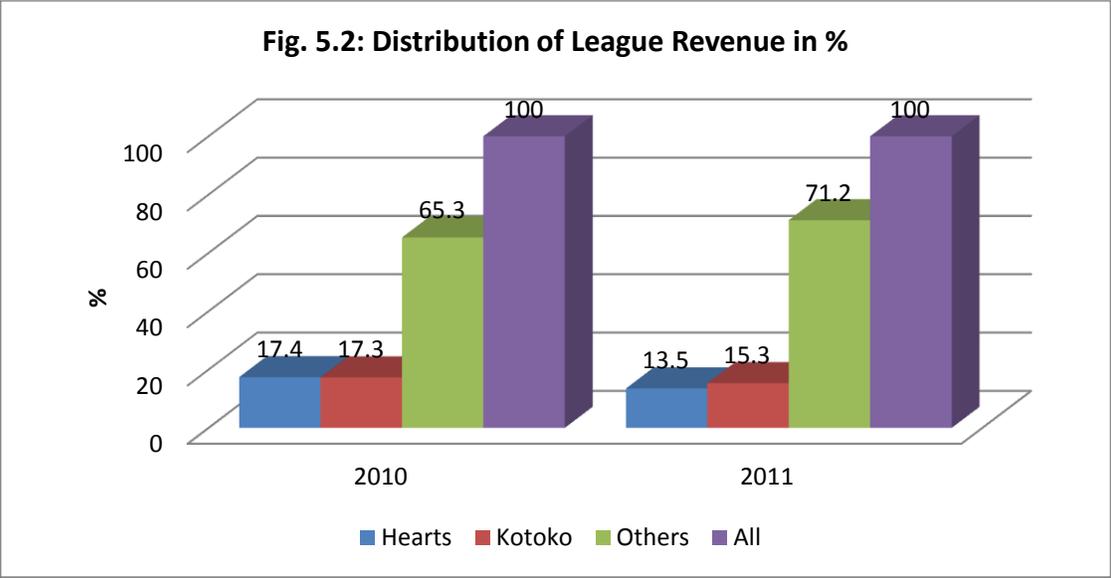
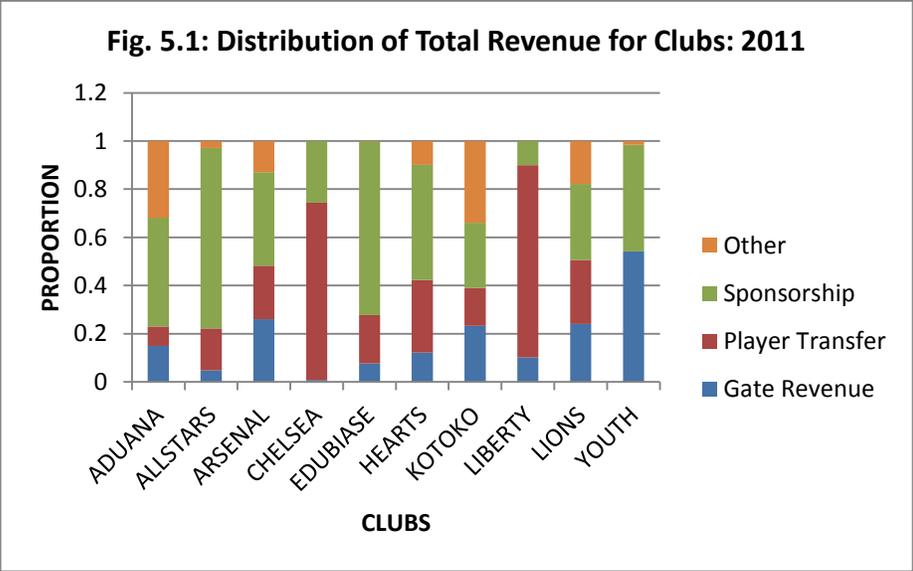
Player transfer revenue as a percentage of total revenue on average fell from 29.3% in 2010 to 22.4% in 2011, with about 30% of the clubs receiving nothing from player transfer revenue. The fluctuations in income from player transfer make it an unreliable source of revenue for the clubs. For example, revenue from player transfer in 2010 for Hearts represented over 50% of all revenues for the club. However, in 2010 the club did not receive any money from player transfers.

Sponsorship revenue which, in the accounts of Ghanaian clubs, include commercial and advertising income, league sponsorship and media rights revenue, has become an increasingly bigger proportion of total revenues for all clubs in Ghana. Sponsorship revenue increased its share of total revenue for the clubs from an average of 41.7% in 2010 to 53.4% in 2011 (Fig. 5.1). This was on account of the increasing share of sponsorship for the top clubs.

### Effect of Kotoko and Hearts on League Revenues

The drop in total league revenue could be attributed to the significant reduction in revenue levels for the two big clubs, Hearts and Kotoko, which between them accounted for about 35% of the league revenues in 2010 (Fig. 5.2). Whilst Hearts experienced a 26% drop in revenues from GHC1.793 million, Kotoko saw total revenues drop from GHC1.785 million in 2010 to GHC1.502 million in 2011, a fall of almost 16% (Table 5.3). The revenue performance of Hearts of Oak was on account of a 10% fall in sponsorship revenue, and an 18% fall in match revenue in the same period. The relatively poor on field performance of the club which had

seen the club fail to win the league title for four years seem to have contributed to the poor off-field revenue performance of the club.



The drop in revenue for Kotoko which was on account of a reduction in revenue from player transfer (see Fig. 5.1) and other income sources was cushioned by the marginal increase in match revenue. This was supported by a significant increase in sponsorship revenue from GHC 0.485 million in 2010 to GHC 0.798 million in 2011, a rise of 64.7%. The ability of the club's management to commercialize the high brand value that the club commands ensured that Kotoko became the first club in Ghanaian history to attract more than two companies as sponsors. The shift of the club from TIGO to their telecommunications industry rivals MTN as title sponsors also ensured that the club benefited from an increased sponsorship package (Kotoko, 2013).

The drop in revenue was however a general phenomenon amongst clubs as only a few of the clubs experienced significant increase in total revenue during the period under review (see Table 5.3). The 2009 league champions Aduana and the 2010 Champions, Berekum Chelsea both posted increases in not only total revenue, but match and sponsorship revenues as well (Table 5.4). Aduana's performances of 2009, which made them the first club to win the premiership title as debutants, ensured that they gradually built a fan base, which was quickly converted into increased match day and sponsorship revenues.

**Table 5.3: Revenue and Expenditure for Selected Ghanaian Football Clubs – 2010-2011**

CLUB	TOTAL REVENUE			TOTAL EXPENDITURE			TOTAL PROFIT/LOSS		
	2010 (GHC)	2011 (GHC)	2010-2011 percent INCREASE (DECREASE)	2010 (GHC)	2011 (GHC)	2010-2011 percent INCREASE (DECREASE)	2010 (GHC)	2011 (GHC)	2010-2011 percent INCREASE (DECREASE)
ADUANA	172,720.00	301,250.00	0.744	277,939.00	304,276.00	0.095	(105,219.00)	(3,026.00)	(0.971)
ALLSTARS	244,429.00	356,411.00	0.458	265,066.00	730,313.00	1.755	(20,637.00)	(373,902.00)	17.118
ARSENAL	540,444.00	261,500.00	(0.516)	1,063,841.00	854,061.00	(0.197)	(523,397.00)	(592,561.00)	0.132
CHELSEA	765,800.00	1,300,490.00	0.698	658,031.00	1,101,298.00	0.674	107,768.00	199,192.00	0.848
EDUBIASE	101,192.00	130,000.00	0.285	110,887.00	166,366.00	0.500	(11,366.00)	(36,366.00)	2.200
HEARTS	1,793,233.00	1,326,538.70	(0.260)	1,781,879.26	2,302,282.77	0.292	11,354.37	(975,744.00)	(86.936)
KOTOKO	1,785,654.94	1,502,030.00	(0.159)	1,301,921.18	1,480,773.00	0.137	63,498.76	21,257.00	(0.665)
LIBERTY	285,028.00	427,227.00	0.499	539,820.00	650,886.00	0.206	(254,792.00)	(223,659.00)	(0.122)
LIONS	740,582.00	506,504.00	(0.316)	668,816.00	631,106.00	(0.056)	71,766.00	(34,602.00)	(1.482)
YOUTH*	22,222.00	23,481.00	0.057	24,417.00	23,440.00	(0.040)	(2,195.00)	41.00	(1.019)
<b>AVERAGE</b>	645,130.49	613,543.17		669,261.74	824,480.18		(66,321.89)	(201,937.00)	
<b>ESTIMATED</b>			(0.049)			0.2319			(2.045)
<b>LEAGUE</b>									
<b>TOTAL</b>	10,322,087.9	9,816,690.72		10,708,187.9	13,191,682.83		(1,061,150.19)	(3,230,992)	

**Table 5.4: Components of Revenue and Expenditure for Selected Ghanaian Football Clubs – 2010-2011**

CLUB	GATE REVENUE			SPONSORSHIP REVENUE			EXPENDITURE ON PLAYER		
	2010 (GHC)	2011 (GHC)	2010-2011 percent INCREASE (DECREASE)	2010 (GHC)	2011 (GHC)	2010-2011 percent INCREASE (DECREASE)	2010 (GHC)	2011 (GHC)	2010-2011 percent INCREASE (DECREASE)
<b>ADUANA</b>	25,720.00	34,850.00	0.355	78,000.00	176,400.00	1.262	180,090.00	191,600.00	0.064
<b>ALLSTARS</b>	11,506.00	2,811.00	(0.756)	183,000.00	168,600.00	(0.079)	140,896.00	219,900.00	0.561
<b>ARSENAL</b>	140,444.00	30,000.00	(0.786)	210,000.00	206,500.00	(0.017)	796,035.00	634,640.00	-0.203
<b>CHELSEA</b>	6,300.00	7,990.00	0.268	196,500.00	210,000.00	0.069	397,293.00	765,620.00	0.927
<b>EDUBIASE</b>	9,542.00	10,250.00	0.074	90,000.00	90,000.00	-	56,640.00	70,650.00	0.247
<b>HEARTS</b>	217,785.97	178,388.00	(0.181)	857,751.34	771,661.77	(0.100)	1,044,103.27	1,378,801.69	0.321
<b>KOTOKO</b>	415,235.50	418,907.00	0.009	484,875.37	798,704.00	0.647			
<b>LIBERTY</b>	28,804.00	36,869.00	0.280	28,804.00	244,809.00	7.499	190,854.00	232,842.00	0.220
<b>LIONS</b>	177,659.00	104,178.00	(0.414)	233,250.00	248,082.00	0.064	159,851.00	156,938.00	-0.018
<b>YOUTH*</b>	12,024.00	12,435.00	0.034	9,835.00	10,833.00	0.101	11,819.00	11,877.00	0.005
<b>AVERAGE</b>	104,502.05	83,667.80		237,201.57	292,558.98		330,842.36	406,985.41	
<b>ESTIMATED</b>			(0.1994)			0.2333			0.2301
<b>LEAGUE</b>									
<b>TOTAL</b>	1,672,032.752	1,338,684.8		3,795,225.13	4,680,943.63		5,293,477.813	6,511,766.56	

This ensured that they continually increased match attendance and match revenue, and achieved a more than 35% increase in match revenue between 2010 and 2011. There was also a more than 120% increase in sponsorship money for Aduana from GHC78, 000 in 2010 to GHC176, 400 in 2011. This was on account of moving from Division One to the Premier league. Chelsea also increased total revenue by 69.8 % on account of a 27% increase in gate revenues, a 7% increase in sponsorship revenue. They also capitalized on the exposure obtained by their players from participating in the CAF Champions league to increase revenue from player sales from GHC0.567 million in 2010 to GHC1.079 million in 2011, an increase of 47.5 %.

#### Attendance and Match Day Revenue

Table 5.5 provides a breakdown of average match attendance and match revenue figures for clubs in the Ghana Premier League for the period 2006 – 2012, showing the significant effect of Kotoko on match attendance and match revenue for all clubs. The effect of playing against Kotoko is a more than 300 % increase in attendance and match revenue for almost all clubs. Attendance for King Faisal for instance improves from an average of 471 to 18,295 when playing against all the other 14 clubs and playing against Kotoko respectively. Since it shares the same venue with Kotoko, a home match for King Faisal against Kotoko is effectively another home match for Kotoko as majority of Kotoko's large following would be able to watch Faisal games.

<b>Table 5.5: Average Attendance and Revenue Figures for Ghanaian Clubs: 2006-2012</b>						
<b>CLUB</b>	<b>WITH OR WITHOUT</b>	<b>AVERAGE</b>	<b>AVERAGE GROSS</b>	<b>HOME CLUB</b>	<b>SPEND PER ATTENDEE</b>	<b>HOME CLUB SHARE</b>
		<b>ATTENDANCE</b>	<b>REVENUE</b>	<b>REVENUE</b>	<b>GHC)</b>	<b>OF REVENUE</b>
<b>KOTOKO</b>	WITHOUT HEARTS	9,519	35,289.05	17,099.63	3.60	0.47
	AGAINST HEARTS	35,282	214,192.66	100,690.00	6.06	0.46
<b>HEARTS</b>	WITHOUT KOTOKO	5,388	14157.61	6,727.78	2.77	0.47
	AGAINST KOTOKO	27,319	139,092.20	75,702.70	5.16	0.54
<b>ASHGOLD</b>	WITHOUT KOTOKO	1,215	2,934.63	1,147.26	2.47	0.36
	AGAINST KOTOKO	4,166	18,780.00	9,597.15	4.64	0.51
<b>CHELSEA</b>	WITHOUT KOTOKO	1,095	3,639.50	1,554.96	3.30	0.39
	AGAINST KOTOKO	n/a	6,588.00	3,239.00	n/a	0.49
<b>MEDEAMA</b>	WITHOUT KOTOKO	550	1,496.41	566.66	2.64	0.38
	AGAINST KOTOKO	3,851	19,255.00	9,411.00	5.00	0.48
<b>ALL STARS</b>	WITHOUT KOTOKO	389	814.13	270.77	2.13	0.31
	AGAINST KOTOKO	996	2,149.00	710.00	2.16	0.33
<b>LIBERTY</b>	WITHOUT KOTOKO	967	2,533.43	1,021.15	2.01	0.24
	AGAINST KOTOKO	5,265	15,720.20	7,580.87	3.21	0.48
<b>FAISAL</b>	WITHOUT KOTOKO	471	1,106.54	330.64	2.63	0.28
	AGAINST KOTOKO	18,295	68,978.00	29,699.50	3.78	0.32
<b>OLYMPICS</b>	WITHOUT KOTOKO	1,080	2,387.08	1,158.85	2.65	0.48
	AGAINST KOTOKO	4,735	15,697.00	7,090.95	2.99	0.45
<b>DWARFS</b>	WITHOUT KOTOKO	2,416	8,467.42	2,846.46	3.41	0.34
	AGAINST KOTOKO	6,315	27,826.00	11,639.00	4.40	0.42
<b>HASAACAS</b>	WITHOUT KOTOKO	1,217	2,702.13	1,294.53	2.05	0.42
	AGAINST KOTOKO	2,104	4,443.00	1,968.76	2.19	0.45
<b>KESBEN</b>	WITHOUT KOTOKO	836	2,746.12	1,199.50	2.70	0.28
	AGAINST KOTOKO	3,810	20,606.67	9,893.66	5.41	0.45
<b>ADUANA</b>	WITHOUT KOTOKO	653	1,960.00	856.14	2.99	0.42
	AGAINST KOTOKO	1,600	8,000.00	4,060.00	5.00	0.51
<b>EDUBIASE</b>	WITHOUT KOTOKO	817	1,716.61	561.56	2.23	0.31
	AGAINST KOTOKO	1,941	4,342.00	2,431.92	2.23	0.56
<b>YOUTH</b>	WITHOUT KOTOKO	588	1,564.76	660.01	2.51	0.38
	AGAINST KOTOKO	4,008	15,579.00	7,649.18	4.51	0.49
<b>LIONS</b>	WITHOUT KOTOKO	476	1,086.02	468.77	2.29	0.41
	AGAINST KOTOKO	1,822	3,686.50	1,933.15	2.04	0.52
<b>LEAGUE</b>	WITHOUT KOTOKO	1,210	3,272	1,193.19	2.58	0.36
	AGAINST KOTOKO	6,159	24,716	11,534.13	3.79	0.46

Source: Calculated from function statements of the clubs

Average home attendance ranges from a low of 389 when Wa All Stars plays against the other 14 clubs minus Kotoko to a high of 35, 282 when Kotoko hosts Hearts of Oak in the main fixture of the Ghanaian league calendar.

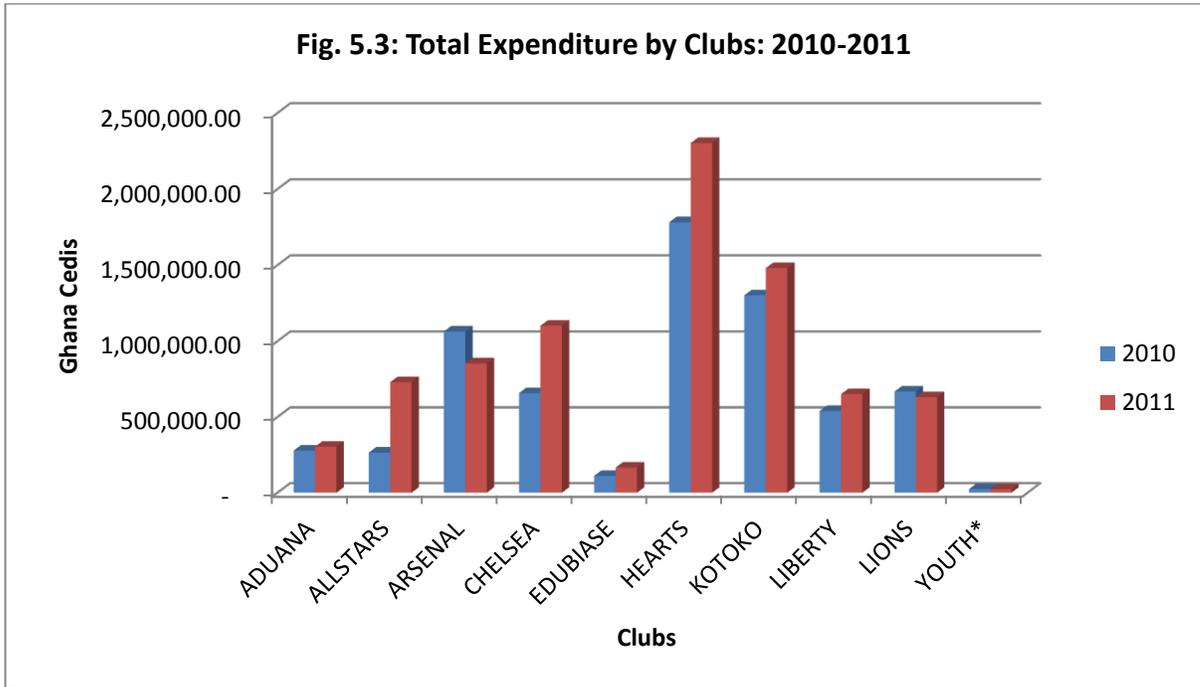
Wide disparities in revenue from matches exists as gross revenue from matches ranges between a low of GHC814 for a Wa All Stars home game and GHC214, 192.66 for a match between Hearts and Kotoko in Kumasi. Average match revenue falls from GHC24, 716 (over GBP 7,700) when they play against Kotoko to only GHC 3,272, the equivalent of about a GBP1, 000.

Due to deductions for taxes, match organizational expenses and distribution to stakeholders such as the GFA, PLB and the National Sport Authority, clubs take home on the average only 36% and 46% of total gate proceeds when they play with the remaining 14 teams and when they play against Kotoko respectively.

### **5.3.2 Expenditure**

Overall league expenditures increased by over 23% between 2010 and 2011, fueled by an equivalent 23% increase in player cost and an increase in total expenditure for over 70% of the clubs within the same period (Table 5.3). Total expenditure which amounted to GHC10.7 million in 2010 increased to GHC13.2 million in 2011, as expenditure on players by all clubs is estimated as having increased by 23% from GHC5.293 million in 2010 to GHC6.512 million in 2011 (Table 5.4).

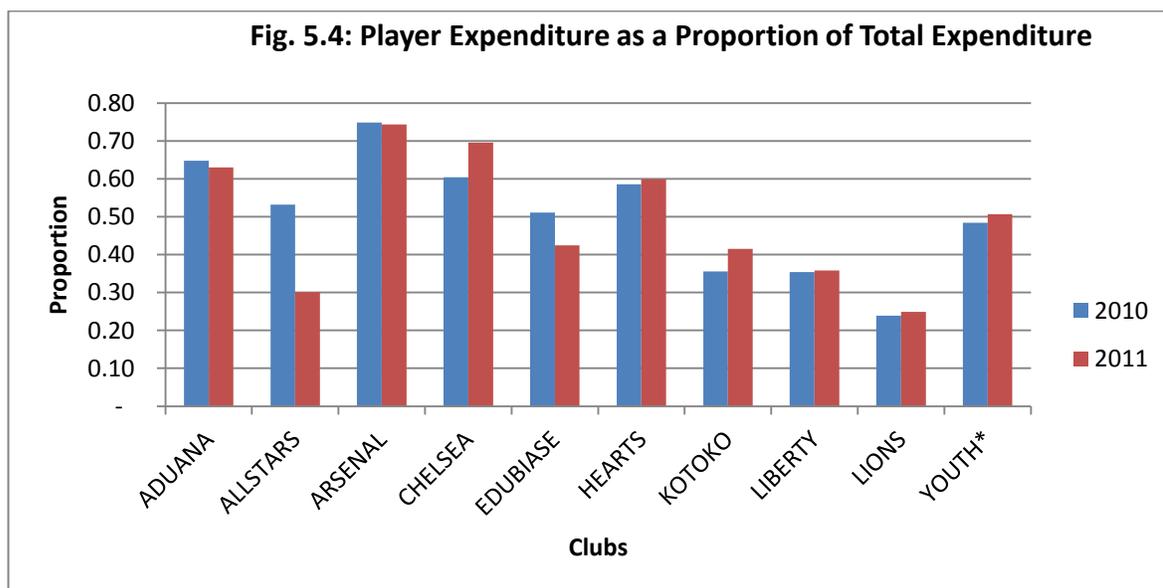
Figure 5.3 shows the changes in total expenditure by clubs in 2010 and 2011.



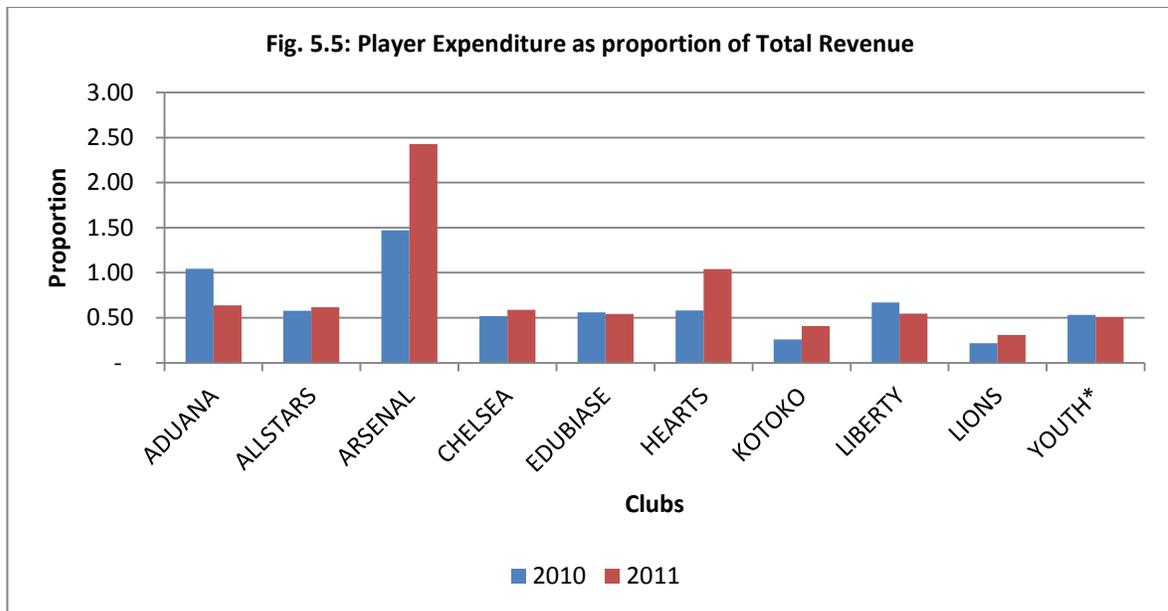
Total expenditure increased for over 70% of the clubs with champions Berekum Chelsea setting the pace, matching their increase in revenue (69.8%) with a 67.4% increase in expenditures from GHC0.658 million in 2010 to GHC1.1 million in 2011(Fig. 5.3). This was fuelled by a 92.7% increase in expenditures on players in an attempt to win the league. Hearts also increased their total expenditure in the same period by 29% (3 percentage points above the growth in revenue). Significantly, growth in expenditure on players for Hearts grew faster (32%) than the growth in both total revenue and expenditure,

Kotoko’s total expenditure increased from GHC1.3 million to GHC1.48 million, a growth of 13.7% (lower than the growth in revenue). Only about 20% of the clubs experienced reductions in growth in player cost, and these clubs were the ones

struggling to avoid relegation at the end of the season, signaling a correlation between expenditure on players and on-field performance. Figure 5.4 below shows player expenditure as a proportion of total expenditure.



The share of player cost in total expenditure for the average club was above 50% in 2011, and was higher in 2011 than it was in 2010 for majority of the clubs. The football consultants Deloitte, as well as UEFA, considers a personnel cost ratio of more than 60% as unacceptably high (Deloitte, 2013; UEFA, 2013); making the figure for Ghanaian clubs quite manageable. Figure 5.5 also shows the expenditure on players as a share of total revenue.



Player cost as a percentage of total revenue increased from 64.3% on the average in 2010 to over 76% in 2011, on account of both an increase in the quantum of player cost for clubs and decreasing revenues. In 2011 almost all clubs saw an increase in this ratio with the higher increases being experienced by clubs in the top quarter of the league rankings at the end of 2011. Thus clubs are spending an increasingly higher portion of any revenue received on player acquisition. This would seem to suggest that there is increased competition to sign the best talents amongst the teams competing for the title.

### 5.3.3 Profitability

Increasing league expenditures and declining revenues led to total league losses more than doubling between 2010 and 2011. Total league losses rose from GHC1.06 million in 2010 to GHC3.23 million in 2011, a rise of more than 204%.

Total league losses as a percentage of total revenue thus increased from 10.3% in 2010 to 32.9% in 2011 (see Table 5.3). On the average each club lost about GHC201, 000 in 2011, up from the 2010 average of GHC66, 000. Discounting for the effect of player cost, the average club would have made a profit of about GHC264, 000 in 2010 and GHC 205,000 in 2011. It must be stated that only a few of the financial statements reviewed provide data that allows for a distinction to be made between operating losses and net losses as majority make no distinction between operating income and other income.

There are individual differences in the changes in net loss position. About 70% of the clubs experienced overall net loss positions at the end of 2011 with 20% of the clubs (including Heart of Oak and Heart of Lions) moving from a position of net profit in 2010 to a position of net loss in 2011. Another 30% saw their losses worsening (e.g. Edubiase, All Stars, and Arsenal), whilst others reduced their net loss position (e.g. Aduana and Tema Youth); or had their profit positions worsening (e.g. Kotoko). Only a few clubs like Chelsea saw an improvement in their prior year profit position. On the back of increasing revenues from player sales as a result of increased exposure of players during the league winning campaign, the club saw profits improving by more than 88% from GHC0.107 million in 2010 to GHC0.199 million in 2011, which was the highest in the league.

Hearts of Oak's 29% increase in expenditure, coupled with a 26% fall in revenue ensured that it recorded a loss in 2011 which represented over 30% of total league losses. The other bad performers in terms of net loss position were Berekum Arsenal and Wa All Stars, both with losses of more than 10% of total league

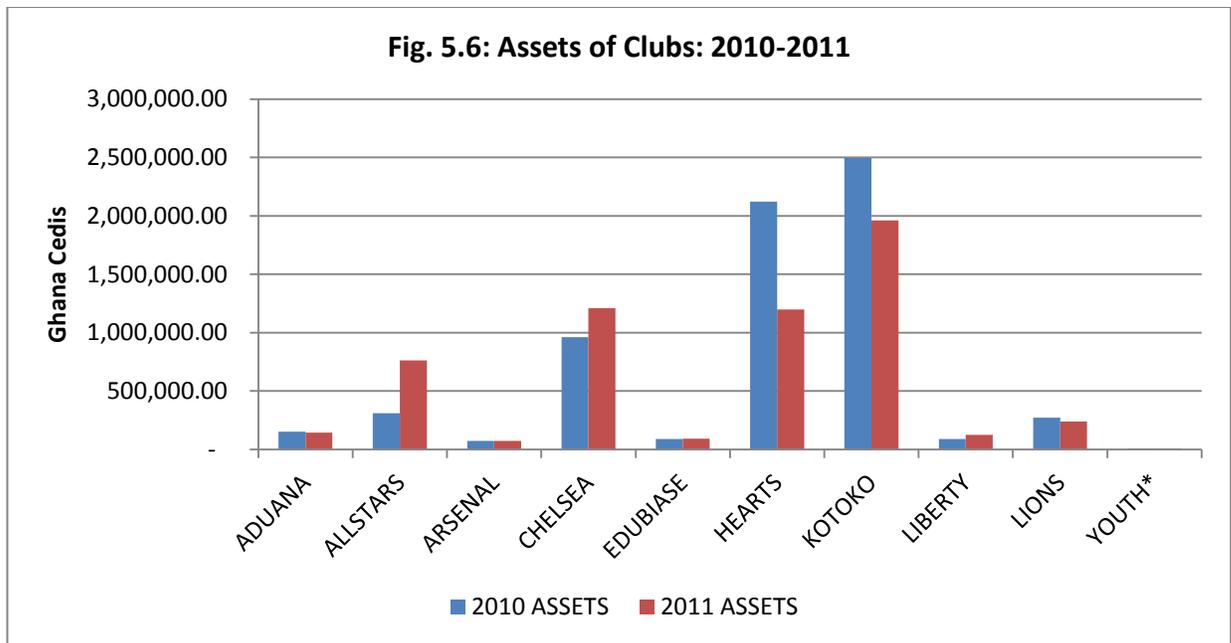
losses. Kotoko on the other hand saw the net profits of the previous year declining from by over 66% from a 2010 figure of GHC63, 498 to GHC21, 257 in 2011.

#### **5.3.4 Financial Position**

This section discusses the assets, liabilities and equity position in an attempt to determine whether the average Ghanaian club is a going concern or not. The discussions on the net equity position are expected to show whether the clubs are financially viable entities or are on the brink of bankruptcy.

##### Assets

Figure 5.6 shows the assets of Ghanaian clubs in 2010 and 2011. Total assets of clubs in the league experienced a 11.5% decline in value from GHC10.52 million in 2010 to GHC9.21 million in 2011, mostly on account of the drop in value of assets of the two big clubs in the period under review. The joint assets of the two clubs accounted for almost 44% and 33% of total league asset value in 2010 and 2011. As such any change in their assets has a significant impact on total league assets. Kotoko and Hearts both experienced a 21.4% and a 43.5% drop in total asset value respectively as a result of a fall in investments.



The drop in share of the two major clubs in total league asset value between the two periods was also on account of the emergence of Chelsea as a third force in Ghanaian football. The assets of the Berekum based club rose from GHC0.96 million in 2010 to GHC1.2 million in 2011, a 25.9% gain in asset value, and a 13% share of total league assets, up from the 2010 share of just over 9% (Table 5.6)

### Liabilities

The total liabilities of the clubs in the league on the other hand showed a 5% drop in the period under review, even though 60% of the clubs saw an increase in their liabilities. The change in total league liabilities from GHC10.9 million to GHC10.3 was on account of the significant 14.4% drop in liabilities of Kotoko, whose total liabilities were 28.5% of total league liabilities in 2010. On the average, each club has liabilities outstanding at the end of December 2011 of GHC0.645 million.

**Table 5.6: Assets, Liabilities and Net Assets of Selected Ghanaian Football Clubs – 2010-2011**

CLUB	TOTAL ASSET			TOTAL LIABILITIES			NET ASSET = Shareholders' Equity		
	2010 (GHC)	2011 (GHC)	2010-2011 percent INCREASE (DECREASE)	2010 (GHC)	2011 (GHC)	2010-2011 percent INCREASE (DECREASE)	2010 (GHC)	2011 (GHC)	2010-2011 percent INCREASE (DECREASE)
<b>ADUANA</b>	151,476.00	144,490.00	(0.046)	16,836.00	32,571.00	0.935	134,640.00	111,919.00	(0.169)
<b>ALLSTARS</b>	309,552.00	761,963.00	1.462	7,760.00	5,000.00	(0.356)	301,792.00	756,963.00	1.508
<b>ARSENAL</b>	73,336.00	74,847.00	0.021	1,126.00	1,016.00	(0.098)	72,210.00	73,609.00	0.019
<b>CHELSEA</b>	960,297.00	1,208,689.00	0.259	25,000.00	24,200.00	(0.032)	935,297.00	1,184,489.00	0.266
<b>EDUBIASE</b>	91,415.00	93,270.00	0.020	7,428.00	8,386.00	0.129	83,987.00	84,884.00	0.011
<b>HEARTS</b>	2,122,687.17	1,198,611.14	(0.435)	3,628,273.47	3,679,941.51	0.014	(1,505,586.30)	(2,481,330.37)	0.648
<b>KOTOKO</b>	2,494,553.24	1,961,039.00	(0.214)	3,114,444.49	2,664,629.00	(0.144)	(619,891.00)	(703,590.00)	0.135
<b>LIBERTY</b>	91,175.00	125,128.00	0.372	1,645.00	14,806.00	8.001	89,531.00	110,322.00	0.232
<b>LIONS</b>	273,793.00	240,725.00	(0.121)	12,258.00	13,792.00	0.125	261,535.00	226,933.00	(0.132)
<b>YOUTH*</b>	7,915.00	8,232.00	0.040	8,661.00	8,936.00	0.032	(745.00)	(704.00)	(0.055)
<b>AVERAGE</b>	657,619.94	581,699.41		682,343.20	645,327.75		(24,723.03)	(63,650.54)	
<b>ESTIMATED</b>			(0.1154)			(0.0542)			(1.5745)
<b>LEAGUE</b>									
<b>TOTAL</b>	10,521,919.06	9,307,190.624		10,917,491.14	10,325,244.02		(395,568.48)	(1,018,408.592)	

This average, however, hides wide disparities in liabilities of the clubs, with the top two clubs accounting for almost 62% of total league liabilities in 2010. Table 5.6 shows the wide variations in liability values for different clubs at the end of 2010 and 2011. The accumulated debt levels for Ghanaian clubs are high relative to their income levels. In both years under consideration, the total debt of the clubs in the league exceeded the revenue made for the year. Total league revenues represented only 94.5% of accumulated debts in 2010, and 95% in 2011. This implies that even if they wanted to, clubs could not liquidate all their outstanding debts using that season's revenue.

### Net Assets

The fall in liabilities which was lower than the 11.5% drop in assets meant that there was a deterioration of the net asset position of the league clubs, moving clubs further into negative equity. Net liabilities rose by 157% from GHC0.395 million in 2010 to GHC1.018 million in 2011 (Table 5.6). This was on account of a 64.8% increase in the net liabilities of Hearts and a 13.5% increase in the net liabilities of Kotoko, as only 30 % of clubs were in net liability position at the end of 2011. Even for those with positive net assets positions, about 28% saw their net asset position deteriorate.

CLUB	CAPITAL EMPLOYED			DEBT /EQUITY RATIO	
	2010 (GHC)	2011 (GHC)	2010-2011 percent change	2010	2011
<b>ADUANA</b>	134,640.00	111,919.00	(0.169)	0.125044	0.291022972
<b>ALLSTARS</b>	301,792.00	756,963.00	1.508	0.025713	0.006605343
<b>ARSENAL</b>	72,210.00	73,831.00	0.022	0.015593	0.01380266
<b>CHELSEA</b>	935,297.00	1,184,489.00	0.266	0.026729	0.020430751
<b>EDUBIASE</b>	83,987.00	84,884.00	0.011	0.088442	0.098793648
<b>HEARTS</b>	697,928.24	(86,217.53)	(1.124)	-2.40987	-1.483051815
<b>KOTOKO</b>	(619,891.25)	(703,590.00)	0.135	-5.02418	-3.787189983
<b>LIBERTY</b>	89,530.00	110,322.00	0.232	0.018373	0.134207139
<b>LIONS</b>	261,535.00	226,933.00	(0.132)	0.046869	0.060775647
<b>YOUTH*</b>	855.00	296.00	(0.654)	-11.6255	-12.69318182
<b>AVERAGE</b>	195,788.30	175,982.95		-27.5994	-10.13860605
<b>ESTIMATED LEAGUE TOTAL</b>	3,132,612.784	2,815,727.152	(0.1011)	-27.5994	-10.13860655

The overall negative equity position of the clubs, however, is on account of only three clubs being technically bankrupt and surviving only on goodwill. However, on the account that two of the clubs are the biggest in the country whose liabilities may include assets of the other clubs, their financial instability threatens the credibility and integrity of the entire league. The deterioration in their net equity position coupled with the rising debt levels of the clubs suggests urgent action

needs to be taken by the stakeholders in the industry to avert the possible collapse of the league.

### Ownership of Club Debt

Analysis of the composition of the ownership of the debt shows that majority of the debts of the clubs are owed to individuals such as the directors, owners, and chairmen of the boards of the clubs. Table 5.8 shows the extent of support given by the Directors of clubs relative to the revenue the clubs make in a year.

<b>Table 5.8: Ratio of Total Revenue to Directors' Loan for Clubs in 2011</b>				
<b>CLUB</b>	<b>Revenue</b>	<b>Debt Owed Directors/Trustees</b>	<b>Revenue as a Ratio of Directors' Loan</b>	<b>Number of Directors owed</b>
<b>Edubiase</b>	130,000.0	93,353.0	1.39	1
<b>B. Arsenal</b>	261,500.0	1,819,592.0	0.14	1
<b>Wa All Stars</b>	356,411.0	1,122,785.0	0.32	1
<b>Chelsea</b>	765,800.0	935,297.0	0.82	1
<b>Liberty</b>	427,227.0	1,536,580.0	0.28	2
<b>Lions</b>	506,504.0	285,348.0	1.78	1
<b>Hearts</b>	1,326,538.7	2,106,215.9	0.63	>2
<b>Kotoko</b>	1,502,123.0	648,733.0	2.32	>2
<b>Aduana</b>	301,250.0	210,164.0	1.43	1
<b>Average</b>	619,706.0	973,118.6	0.64	
<b>Source: Financial Statements of Clubs in 2011</b>				

All the clubs have line items in the balance sheet classified as directors' loans, directors' accounts, and advances from trustees, chairman's account or directors' loan account, representing the sources of finance for the net assets of the club. These are considered as long-term loans to the clubs to be paid when the clubs make profits; something which invariably does not happen. The director(s) thus behave effectively as 'so-called benefactor owners', their support to the clubs being dependent on financial success from other businesses that they own (Franck and Lang, 2013).

The majority of the clubs made less in revenue in 2011 than the accumulated debt to their Directors or Trustees in the same year. The average club's revenue could settle 64% of the debt they owed their directors, showing the extent of indebtedness of the clubs to their Directors. Table 5.8 shows that majority of the clubs are funded by directors who underwrite the debts of the clubs.

<b>Table 5.9: Financial Ratios for Selected Ghanaian Football Clubs – 2010-2011</b>												
<b>CLUB</b>	<b>PLAYER TRANSFER REVENUE/ TOTAL REVENUE (percent)</b>		<b>SPONSORSHIP REVENUE/TOTAL REVENUE (percent)</b>		<b>GATE REVENUE/ TOTAL REVENUE(percent)</b>		<b>PROFIT MARGIN (percent)</b>		<b>PLAYER COST/REVENUE (percent)</b>		<b>PLAYER COST/ EXPENDITURE (percent)</b>	
	<b>YEAR</b>	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>ADUANA</b>	08.11	7.07	45.16	58.56	14.89	11.57	-60.91	-1.00	104.27	63.60	64.79	62.97
<b>ALLSTARS</b>	17.47	51.91	74.87	47.30	04.71	00.79	-08.44	-104.90	57.64	61.70	53.16	30.11
<b>ARSENAL</b>	22.20	0.00	38.86	78.97	25.99	11.47	-96.84	-226.60	147.29	242.69	74.83	74.31
<b>CHELSEA</b>	73.52	83.24	25.66	16.15	00.82	00.61	14.07	15.31	51.88	58.87	60.38	69.52
<b>EDUBIASE</b>	24.71	34.62	88.94	69.23	09.43	07.88	-11.23	-27.97	55.97	54.35	51.08	42.47
<b>HEARTS</b>	50.69	0.00	47.83	58.17	12.14	13.45	00.63	-73.55	58.22	103.94	58.60	59.89
<b>KOTOKO</b>	15.67	2.68	27.15	53.17	23.25	27.89	03.55	01.41	25.96	40.90	35.60	41.48
<b>LIBERTY</b>	79.79	34.07	10.11	57.30	10.11	08.63	-89.39	-52.35	66.96	54.50	35.36	35.77
<b>LIONS</b>	26.65	10.86	31.50	48.98	23.99	20.57	09.69	-06.83	21.58	30.98	23.90	24.87
<b>YOUTH*</b>	00.00	0.00	44.26	46.14	54.11	52.96	-09.87	00.17	53.19	50.58	48.40	50.67
<b>AVERAGE</b>	29.35	22.44	41.75	53.39	17.66	15.58	-24.87	-47.63	64.30	76.21	50.61	49.21

**Table 5.10: International Player Transfer Income for Kotoko for Period 2011-2012**

Player	Transfer Date	Transfer Amount	Club	1 <sup>st</sup> installment			2 <sup>nd</sup> Installment			3 <sup>rd</sup> Installment			Status as at 30/06/13
				Amount Due	Due Date	Amount Paid	Amount Due	Due Date	Amount Paid	Amount Due	Due Date	Amount Paid	
<b>Nat Asamoah</b>	29/01/12	EUR 200,000	Red Star	100,000	16/02/12	None	100,000	16/02/12	None	n/a	n/a	n/a	EUR 200,000 not paid
<b>Alex Asamoah</b>	31/08/11	US\$ 80,000	ES Setif	40,000	31/08/11	40,000	40,000	02/11/11	None	n/a	n/a	n/a	US\$40,000 outstanding
<b>Jordan Opoku</b>	30/01/11	US\$20,000	KS Tirana	10,000	01/02/11	None	10,000	11/04/11	None	n/a	n/a	n/a	US\$ 20,000 outstanding
<b>Awal Mohammed</b>	28/07/12	US\$200,000	Maritzburg	100,000	01/08/12	100,000	50,000	30/11/12	50,000	50,000	31/01/13	50,000	Fully paid
<b>Albert Bruce</b>	01/01/12	EUR 25,000	Legia W.	25,000	16/01/12	25,000	n/a	n/a	n/a	n/a	n/a	n/a	Fully paid
<b>Obeng Reagan</b>	01/09/11	US\$ 80,000	Virtus	30,000	01/09/11	30,000	50,000	01/01/13	25,000	n/a	n/a	n/a	US\$25,000 outstanding
<b>Harif Mohammed</b>	01/09/11	US\$ 30,000	Virtus	30,000	01/09/11	30,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Owusu-Ansah</b>	01/09/11	US\$ 80,000	Virtus	30,000	01/09/11	30,000	50,000	01/01/13	None	n/a	n/a	n/a	US\$50,000 outstanding
<b>Ben Acheampong</b>	29/11/12	US\$150,000	P. Luanda	150,000	29/11/12	150,000	n/a	n/a	n/a	n/a	n/a	n/a	Fully Paid
<b>Yaw Frimpong</b>	17/10/12	US\$150,000	TP Mazembe	150,000	01/11/12	150,000	n/a	n/a	n/a	n/a	n/a	n/a	Fully paid
<b>Daniel Nii Adjei</b>	17/10/12	US\$150,000	TP Mazembe	150,000	01/11/12	150,000	n/a	n/a	n/a	n/a	n/a	n/a	Fully Paid

## **5.4 FINANCIAL ANALYSIS OF GHANAIAN PROFESSIONAL CLUBS**

This section utilizes some financial performance ratios to provide further evidence of financial performance and position of Ghanaian clubs. Whilst the current and gearing ratios provide a useful sense of the solvency of the clubs, the profit management ratios such as the current-ratio, the gearing-ratio, return-on-capital-employed, profit margins, and asset-turnover ratio all provide good indication of how efficiently the clubs employ their assets to generate profit for their shareholders. The choice of these measures was also influenced by availability of data.

### **5.4.1 Cash Management**

To provide evidence of short term solvency problems of the clubs and the propensity of the clubs' directors to utilize debt to fund their net assets, the current ratio and the gearing ratio have been calculated. The interest cover ratio, defined as the profit before transfer fees and amortization of costs of registration divided by interest payable on bank loans and overdrafts, could not be calculated because most clubs do not utilize bank loans and overdrafts nor state a figure for interest payable in their accounts.

#### Short-Term Solvency

The current ratio is the ratio of current assets to current liabilities and it is a measure of the short term solvency of a club. It provides an indication as to whether any organization could meet its short term liabilities with its short term assets, and a figure of at least one is usually considered desirable in most industries (Gasking, 1999). Only 30% of clubs have a current ratio of less than

one, indicating that the majority of clubs could meet their short term liabilities (debts and payables) with their short term assets (cash and receivables). Inventories are not a significant component of the current assets of most Ghanaian football clubs, or indeed of most football clubs, as there is little or no merchandising done by the clubs. Therefore, the quick ratio is an identical figure to that of the current ratio. At the level of the league, the current ratio was very comfortable, being in excess of 13:1 for seasons 2011 (see table 6.13). Ostensibly this implies that in the short term Ghanaian clubs are highly solvent.

However, it is interesting to note that three of the top four clubs have current ratios which are significantly lower than 1. For instance the current ratio for Kotoko deteriorated from 0.10:1 in 2010 to 0.01:1 in 2011 – i.e. the short term assets of Kotoko could only take care of only 10% of its short term liabilities in 2010 and only 1% in 2011. Hearts' coverage on the other hand reduced from 32% in 2010 to only 9% in 2011. To the extent that the debts of these big clubs are owned by the other smaller clubs, the inability of the clubs to liquidate their debts threatens the survival of the other clubs as well.

### Player Transfer Debts

It is not uncommon for larger clubs to use expected league rights revenue, i.e. centrally allocated revenue, to guarantee its player purchases. Table 5.11 shows detail of this financing approach for Kotoko in respect of the purchase of players from 13 clubs for the period 2009-2011. It shows that part of monies due to three clubs (Hassacas, Zaytuna, and St. Mirren) at the end of 2009 remained unpaid at the end of the 2012/13 season. Each of these clubs thus had long term debts on their balance sheet despite having been given

guarantees by Kotoko that they would be paid at the end of the year with their share of the league sponsorship money.

Of greater concern, and signalling the apparent inability of the FA to effectively monitor the payment of player transfer debts, is the fact that despite Kotoko having an outstanding balance of GHC186, 500 at the beginning of 2010 due to other clubs in respect of overdue transfer payables, the FA still accepted guarantee letters from Kotoko given to 3 clubs in 2010 advising the FA to pay them from its share of the sponsorship money. The FA knew very well that Kotoko's share of the sponsorship money did not cover its existing indebtedness, far less new debt, yet approved the transfers. In 2011 it accepted another guarantee letter in favour of Berekum Chelsea for the sum of GHC35, 000, again in spite of the existing debt of GHC155, 211 owed by the club at the beginning of the year.

<b>Table 5.11: Payment Schedule of Player Transfer Debt Owed by Kotoko to Other Clubs Using FA Guarantee System in Ghana</b>						
<b>Cedis</b>						
<b>Club</b>	<b>Transfer Amount Due End of</b>	<b>Amount Owed as at 31/12/2009</b>	<b>Amount Owed as at 31/12/2010</b>	<b>Amount Owed as at 31/12/2011</b>	<b>Amount Owed as at 31/12/2012</b>	<b>Amount Owed as at 30/06/2013</b>
<b>Gamba</b>	2009	10,000	Fully Paid	n/a	n/a	n/a
<b>Faisal</b>	2009	3,500	3,500	3,500	Fully Paid	n/a
<b>Hasaacas</b>	2009	21,000	21,000	5,500	2,500	2,500
<b>Zaytuna</b>	2009	20,000	16,387	14,566	2,566	2,566
<b>St. Mirren</b>	2009	46,000	38,334	33,913	8,913	8,913
<b>T. Youth</b>	2009	10,000	10,000	Fully Paid	n/a	n/a
<b>RTU</b>	2009	25,000	Fully Paid	n/a	n/a	n/a
<b>Ebony</b>	2009	6,000	6,000	Fully Paid	n/a	n/a
<b>B. Arsenal</b>	2009	45,000	37,500	28,500	10,000	10,000
<b>Dreams</b>	2010	-	10,000	Fully Paid	n/a	n/a
<b>Bechem</b>	2010	-	7,500	Fully Paid	n/a	n/a
<b>Lions</b>	2010	-	5,000	5,000	Fully Paid	n/a
<b>B. Chelsea</b>	2011	-	-	35,000	26,000	26,000
<b>Total</b>		186,500	155,221	125,979	49,979	49,979
<b>Source: Ghana Football Association</b>						

Table 5.12 also shows the list of clubs from whom Kotoko bought players during season 2011/12 without providing the sponsorship monies as guarantees and the promised payment schedule. There is no record in the clubs accounts of 2011/12 to suggest that the scheduled payments for the year were made as planned. Moreover, receivables due from the transfer of its players abroad between 2011 and 2012 still had an outstanding balance of about GHC846, 300 as at June 2013 (Appendix 9).

<b>Table 5.12: Player Transfer payment Schedule for Kotoko Outside GFA Guarantee System</b>				
<b>Club</b>	<b>Contract Sum</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
<b>Wa All Stars Asfa</b>	40,000	20,000	20,000	0
<b>Yenega</b>	23,250	15,500	7,750	0
<b>Yegola F/C</b>	20,000	10,000	10,000	0
<b>Bechem United</b>	20,000	7,000	7,000	6,000
<b>Brkm Chelsea</b>	30,000	10,000	10,000	10,000
<b>Red Bull Academy</b>	15,000	5,000	5,000	5,000
<b>Proton F/C</b>	5,000	5,000	0	0
<b>Kenstep F/C</b>	15,000	5,000	5,000	5,000
<b>B. A. Stars</b>	30,000	10,000	10,000	10,000
<b>Feyenoord</b>	90,000	40,000	35,000	15,000
<b>Nania F/C</b>	5,000	5,000	0	0
<b>Windy Prof</b>	40,000	14,000	14,000	12,000
<b>Dreams F/C</b>	5,000	5,000	0	0
<b>Chance for Children</b>	15,000	5,000	5,000	5,000
<b>Liberty</b>	35,000	20,000	15,000	0
<b>Total</b>	<b>388,250</b>	<b>176,500</b>	<b>143,750</b>	<b>68,000</b>
<b>Source: Asante Kotoko SC Annual Report for 2011/12</b>				

Real Tamale United also owed Kotoko the sum of GHC30, 000 from player transfers in 2009. After making two instalment payments which brought the outstanding balance to GHC18, 000 at the end of 2011, RTU was relegated to Division 1, thus losing their share of future league rights monies and resulting in the suspension of payments on the debt. Yet, even although RTU returned to the league in 2012/13 the balance is still outstanding; similar to several sums owed by Kotoko (see Table 5.11). The principal reason for this situation is that the league rights money for 2012/13 has still not been paid by the rights holder, GLO, to the league, and hence has not been distributed on to the clubs.

Medeama also utilised the GFA guarantee system in the purchase of player Mohammed Sabato from Kotoko at the beginning of the 2012/13 season. The GFA credited Kotoko's accounts with a balance of GHC9, 000 in March, 2012 but immediately utilised it to pay-off part of Kotoko's indebtedness to Berekum Chelsea (Table 5.11).

This evidence might be an indication of the existence of an unorganised debt payment system in Ghanaian football. By employing aspects of the operations of clearinghouses utilised by the banking sector to improve on the efficiency of debt payment, the FA should be able to overcome this challenge.

#### Other Football Debts

Kotoko, like other clubs, also utilizes the league rights money as guarantee for loans obtained by the club from football related organizations, as well as to pay fines and fees it owes to the FA, FIFA and other footballing organizations and individuals. The GFA thus operates in this regard as an informal clearinghouse, where debits and credits of the clubs are reconciled. Appendix 9 provides detail of deductions made from the club's share of central rights revenue which were paid directly to its creditors by the GFA. Unlike in the UK where the football creditors rule determines who the preferred creditors of clubs are in case of insolvency (Watson, Farley and Williams, 2012), Ghanaian football does not have a creditor ranking system. However, in practice, the FA has considered clubs' debts to the GFA and GHALCA as subsidiary to fines and fees imposed on the club by international bodies, and debts to other clubs as the payment details below would show.

## Gearing

A gearing position of less than one implies that the directors of a firm use more of the shareholder's/owner's funds than borrowed funds in financing the net assets of the company (Gasking, 1999). Only Kotoko, Hearts and Tema Youth had negative equity positions in 2010 and in 2011, implying that these clubs are essentially undercapitalized by their owners and thus financed their operations with borrowed money all other clubs showed a positive equity position. They also carried liabilities that were more than twice the equity used in financing the net assets of the club. Continuous use of borrowed funds to fund the acquisition of risky assets such as player purchases may not be sustainable in the long term. The values showed in Table 5.8 indicate that majority of the Ghanaian clubs are in serious financial positions or should not be in business in the first place.

### **5.4.2 Profit Management**

#### Return on Capital Employed

Table 6.13 provides profit and solvency ratios for selected Ghanaian clubs. The clubs demonstrated varying rates of return on capital employed for both years under consideration. Apart from Kotoko, all the remaining nine clubs used in the analysis had positive figures in respect of capital employed in 2010 (see Table 6.7). However, the fact that six out of ten clubs made losses in 2010 (see Table 6.3) resulted in all but three clubs having a negative ROCE (see Table 6.13).

CLUB	ASSET TURNOVER RATIO = REVENUE/ASSETS		REVENUE/ CAPITAL EMPLOYED		CURRENT RATIO = CURRENT ASSETS/ CURRENT LIABILITIES		ROCE = PROFIT/CAPITAL EMPLOYED	
	2010	2011	2010	2011	2010	2011	2010	2011
<b>ADUANA</b>	1.1402	2.0849	1.2828	2.6916	0.0424	0.0420	-0.7814	-0.0270
<b>ALLSTARS</b>	0.7896	0.4677	0.8099	0.4708	25.0690	26.3450	-0.0683	-0.4939
<b>ARSENAL</b>	7.3694	3.4937	7.4843	3.5418	34.3179	44.1407	-7.2482	-8.0259
<b>CHELSEA</b>	0.7974	1.0759	0.8187	1.0979	34.0670	47.0817	0.1152	0.1681
<b>EDUBIASE</b>	1.1069	1.3938	1.2048	1.5315	1.4357	1.4929	-0.1353	-0.4284
<b>HEARTS</b>	0.8447	1.1067	2.5693	-15.3859	0.3293	0.0901	0.0162	11.3172
<b>KOTOKO</b>	0.7158	0.7659	-2.8805	-2.1348	0.1015	0.0139	-0.1024	-0.0302
<b>LIBERTY</b>	3.1261	3.4143	3.1836	3.8725	17.4048	1.7176	-2.8458	-2.0273
<b>LIONS</b>	2.7048	2.1040	2.8316	2.2319	20.8427	16.1469	0.2744	-0.1524
<b>YOUTH*</b>	2.8075	2.8524	25.9906	79.3277	0.2706	0.2846	-2.5672	0.1385
<b>AVERAGE</b>	2.1402	1.8759	4.3295	7.7245	13.3881	13.7355	-1.33431	0.043858

In 2011, Kotoko and Hearts had negative capital employed (i.e. negative equity), with Kotoko making profits whilst Hearts made losses. All the remaining clubs had positive capital employed but only Chelsea and Tema Youth made profits. Hence, the majority of clubs had negative returns due to their losses. Invariably repeated loss-making by the clubs lead to a position of negative equity in the long-run.

### Profit Margin

For the 40% of the clubs making profits in 2010, the profit margins were relatively small compared to the margins for those making losses. The margins were as low as 0.63% and the highest was the 14.7% profit margin on revenue

obtained by Chelsea. For those making losses, the margins ranged between 9.8% for Youth and almost 97% for Arsenal. Thus overall, the average club made a loss which was 24.9% of total revenue. Thus for every cedi of revenue obtained by the clubs, they made a loss of almost 25 pesewas. For the 30% of clubs that made profits in 2011, the margins were still lower than the margins for those making losses. The loss as a percentage of revenue ranged between 0.17% (also less than a percent) obtained by Youth and 15.3% by Chelsea. Overall, the average club made a negative margin of almost 48% of revenue. This implies that the losses of the clubs as a percentage of the revenue obtained increased considerably between 2010 and 2011.

### Asset Turnover

The asset-turnover ratio shows how efficiently an organization is utilizing its assets to generate revenue. A high assets turnover ratio means that the club is doing well; efficiently generating income from its assets. A club with a higher asset base, all things being equal should generate more revenue than a club with a smaller asset base. The asset-turnover ratio for Ghanaian clubs in both 2010 and 2011 was impressive but declining (table 5.13). On average each GHC1.00 of assets of the clubs produced GHC2.14 in revenues in 2010, but only GHC1.87 in 2011. Only 30% of clubs in 2010 and 20% in 2011, had asset turnover ratios that were less than 1 and these included the clubs with bigger asset base like Hearts, Kotoko and Chelsea. This suggests that they were less efficient in generating revenue than the other clubs. With league and broadcast right revenues shared equally without recourse to league position or team size,

it is to be expected that revenues are more evenly spread. With clubs differing substantially in terms of size (based on assets), the asset turnover ratio is expected to be more favorable for the smaller clubs.

## **5.5 OTHER ISSUES AFFECTING FINANCIAL MANAGEMENT OF CLUBS**

This section discusses other key characteristics of the financial environment within which Ghanaian clubs operate that may have the potential to generate systemic challenges to the financial management practices of the clubs. The issues to be discussed include the utilization of formal sector credit, the levels of sponsorship activities, merchandising, and the effect of participating in CAF Inter-club competitions on a club's debt profile.

### **5.5.1 Utilization of Formal Sector Credit**

A review of the financial statements of clubs shows that there is limited-utilization by Ghanaian pro football clubs of credit from the formal financial sector, as compared to other sources of credit such loans from club Directors or Trustees. This might be a symptom of either a lack of access to such forms of credit, or the high cost of credit which exists in the Ghanaian financial market. Table 5.15 below shows the sources of short and long-term loans utilized by Ghanaian football clubs over the period 2006-2011.

<b>Source of Finance</b>	Long-Term Loan from Directors or Trustees	Short Term Loans from Financial Institutions	Bank Overdrafts	Loans from Parent Company
<b>No of Clubs Utilizing</b>	17	4	7	2
<b>Percentage of clubs Utilizing</b>	80.9	19.0	33.3	9.5
<b>Total No. of Clubs</b>	21	21	21	21

The main source of long-term credit for investment in assets and in player acquisition is loans made to clubs by their Directors or Trustees. Over 80% of the clubs whose financial statements were reviewed have outstanding loans to their directors, although in most cases such loans are interest free. Even where there are interest charges, the rates are several percentage points below the market rate. An example is a 15% interest approved by the Board of Kotoko to be paid as interest on directors' loans to the club. By way of contrast, the Bank of Ghana's 91-day Treasury bill earns 21% as at 05/08/2013 (BOG, 2013). This implies that the clubs are better off obtaining soft loans from Directors rather than attempting to obtain hard loans from banks and other financial institutions.

Where the clubs do obtain any form of credit from formal financial institutions, the preference has been for bank overdrafts, which have been utilized by 33% of the clubs over the period under review. Only 19% of the clubs have obtained any form of other short term assistance from banks. The predominance of

Table 5.15: Value of Recent Club Title Sponsorship in Ghana

Club	Company	Brand	Year Signed	Duration	Value	Status as at July 2013
Kotoko	Millicom	Starcall	1999	3	-	Not Renewed
Kotoko	Scancom	Spacefon/Areeba	2002	2	-	Renewed
Kotoko	Scancom	Areeba/MTN	2004	3	GHC 900,000	Renewed
Hearts	Scancom	Areeba/MTN	2008	3	\$4.5 million	Not Renewed
Kotoko	Millicom	TiGO	2007	3	GHC 3,000,000	Terminated
RTU	Wienco	Wienco	-	-	-	Terminated
Faisal	Scancom	MTN	2009	3	\$450,000	Terminated
Wise	Scancom	MTN	2009	3	\$450,000	Terminated
Lions	Scancom	MTN	2009	3	\$450,000	Not Renewed
Mirren	Scancom	MTN	2009	3	\$450,000	Terminated
Kotoko	Scancom	MTN	2010	3	GHC 3.6 m	Pending Renewal
Stars	Budget Cash & Carry	Blue Jeans	2012	3	GHC 270,000	Running
Medeama	Goldfieds Gh	Goldfields Gh	2009	3	GHC 300,000	Renewed

Source: Compiled by author from club sources

overdrafts, which are considered by the banks as being less of a risky asset, would seem to suggest that the risk associated with dealing with the clubs is the key determinant of the apparent low utilization of formal banking sector credit by the clubs. From the clubs' perspective, overdraft finance suits their short term financial needs.

## 5.5.2 Sponsorship and Media Rights

Table 5.16 below provides figures for recent club sponsorship available to various clubs in Ghana's Premier league.

The levels of the sponsorship are low compared to what pertains in other African countries such as Egypt, Tunisia and South Africa (Kotoko, 2013). Whilst some clubs like Lions struggle to hold on to the sponsorship when they expire others have their contract terminated once they are relegated from the Premier League (RTU, Faisal, Wise and Mirren). Kotoko terminated its 2007 agreement with Tigo in 2009 to move to telecom rivals, MTN for an improved offer. Hearts of Oak also turned down an offer of a reduction in sponsorship levels when their 2008 deal with MTN came up for re-negotiation, to sign with SAS at levels similar to what they were losing from the existing deal. Whilst these two clubs could negotiate favorable terms with corporate firms based on their size and the mileage they offer advertisers, the smaller clubs are bargain takers with little bargaining power. Between 2010 and June 2013, Kotoko increased the number of sponsors from 1 to 13 and the details are provided Appendix 8.

The FA sold the media rights to the league in 2008 to Optimum Media Prime (OMP), a Ghanaian media company, a subsidiary of Metropolitan Television (Metro TV). OMP was to pay GH¢ 300,000 for the second half of the 2008/09 soccer season and then subsequently pay GH¢600,000 for the second year and GH¢ 800,000 for the final year. Whilst this may be insignificant in comparison with what pertains in Europe (see Deloitte, 2012), rights revenue still remains an important source of revenue, especially the smaller-sized clubs in Ghana (see table 6.9).

At the league level the current sponsorship by Globacom (Gh.) Ltd is worth \$3 million per annum over five years. Each Ghanaian club is expected to receive the equivalent of only US\$120,000 from the GLO Premier League sponsorship

in the 2012/13 season. This is low compared to the sponsorship for the knock-out competition of South Africa, the NedBank Cup, which has a sponsorship package worth over R52 million over five years. By the end of the 2012/13 season the sponsors of the league had not paid any portion of the sponsorship amount due to the clubs. Thus, not only are the sponsorship levels low, the flow is unpredictable and unreliable.

Potential issues of ambush marketing have generated conflict between the League and some clubs, these arising in situations where a club's sponsors are a direct rival of the main league sponsor. For example, Kotoko's headline sponsor MTN is a direct rival of the League's sponsor, GLO in the telecom industry. The FA's contract with GLO makes it illegal for any club to advertise a telecom company during league matches, meaning that mileage promised MTN per its contract with Kotoko cannot be realized. This leads to economic inefficiency or irrationality when considered from the point of view of a club. For example MTN pays Kotoko almost eight times the amount the club receives from the FA in league rights sales, but the club is unable to fully honor its obligations to the sponsor. In contrast, Liverpool advertises Standard Chartered at its league games despite the league being sponsored by the sponsor's rival in the banking industry, Barclays. The English FA, however, does not consider this as an exercise in ambush marketing.

Whilst ambush marketing threats are real and could endanger the potential to maximize total league earnings from right sales, providing exclusivity to league sponsors also has the potential to limit the ability of clubs to obtain individual sponsorship deals. It could thus limit the flow of income into the football league economy as a whole. It is important, therefore, for the FA to develop clear

guidelines on ambush marketing, picking experiences from other developed leagues, but at the same time taking the economic circumstances of the Ghanaian clubs into consideration.

### 5.5.3 Merchandising

Table 5.16 provides information on the kit suppliers and replica jersey sales for clubs in the league as at June, 2013.

<b>Clubs with Current Kit Sponsors</b>	Medeama	Errea
<b>No Official Kit Sponsor</b>	All Clubs except Medeama	
<b>Fan Shop</b>	Hearts and Medeama	
<b>Rights to Produce Replica Sold</b>	Kotoko and Medeama	
<b>Unofficial merchandise sold on streets</b>	Kotoko and Hearts	
<b>Previous Official Kit Sponsorship</b>	Kotoko	Admiral Jako Lotto +One
	Hearts	Mingle Kajimolo
<b>Source: Author's own compilation</b>		

Apart from Medeama SC which currently has a kit sponsorship arrangement with Errea, all other clubs, including Kotoko purchase their kits at market price. Hearts of Oak are the only club with an official fan shop where replica jerseys are sold to the fans. Individual retailers attempt to fill the void created by the inability of the two big clubs to market their own produce by selling unofficial merchandise on the streets of the major cities. This leakage of potential

income from the game is an inefficiency that needs the collective efforts of the FA and its clubs to address. .

For example Kotoko has sold the rights to the production of merchandise with its logo to Champion industries for a two year period ending December 2013. However, with the weak copyright enforcement practices in Ghana (an area which needs better regulation), and the relatively higher cost of the official merchandise, compared to the versions sold on the streets, it is particularly difficult for the right holder to benefit from such an arrangement in a poor country. Thus clubs are not able to take advantage of the opportunity to raise further revenue from merchandise sales.

#### **5.5.4 Financial Effects of Participating in CAF Inter-club Competitions**

Playing in the UEFA Champions League is a huge attraction for many European clubs due not only to the profile of the competition, but more instrumentally due to the sums of money generated and distributed to participant clubs. In 2009/10 a total of €757.4 million was distributed to the 32 clubs that played in the group stages of the competition with the winner, Internazionale of Italy being paid €49.2 million (Deloitte, 2011). To demonstrate again the differences between the financial environment in Africa and in Europe, it is worth noting that even the club that earned the least amount of money from participating in the group stages of the competition, Maccabi Haifa FC earned more (€8.7 million) than the total prize money on offer in 2010 for both the CAF Champions League and the Confederations Cup combined (see

Table 5.14 below). The chance to play in the UEFA competition also serves to attract the best players to clubs that qualify for the competition.

Qualification for the CAF Champions league may serve to attract players to Ghanaian clubs as it provides them with the platform to market themselves for potential transfers abroad. It may also increase the market value of a Ghanaian player on the international market and thus potentially raise money for the club in that way. These could be considered as indirect potential benefits of participation for the club. The direct financial cost and benefit of participating in the competition, however, are crucial in determining the financial viability of participation for clubs with limited resources. Any competition that imposes financial demands without commensurate guaranteed rewards has the potential to seriously undermining their cash flows and generating unsustainable liabilities.

Bediako (2012) argues that in Ghana, Kotoko and Hearts of Oak have been victims of their own success due to their rich history of participation in the CAF inter-club competitions. He refers to various interviews he has had with administrators of the clubs who admit that winning league titles which results in participation in the CAF Champions league competition has been a major source of the mounting liabilities of the clubs. He does not, however, provide evidence of the effect of playing in the CAF inter-club competitions on a club's finances. Revenue and expenditure data from Kotoko's participation in the 2008 CAF Champions League competition has been utilized by this study to illustrate why the competition could be a financial trap for Ghanaian clubs. Table 5.19 provides the prize money awarded for finishing at various positions in the competition for the period 2008-2010.

**Table 5.17: Prize Money awarded for CAF Inter-Club Competitions in 2008-2010**

Ranking	Champions League		Confederations Cup	
	Money awarded to club	Money awarded to national assoc.	Money awarded to club	Money awarded to national assoc.
1 <sup>st</sup>	\$1.5million	\$50,000	\$625,000	\$35,000
2 <sup>nd</sup>	\$1.0million	\$35,000	\$432,000	\$30,000
Semi-finalist	\$700,000	\$22,500	\$239,000	\$25,000
3 <sup>rd</sup> in group stage	\$500,000	\$13,750	\$239,000	\$20,000
4 <sup>th</sup> in group stage	\$400,000	\$10,000	\$150,000	\$15,000

Source: Confederation of African Football

The club played in three qualifying rounds before playing in the group stages of the competition. It eventually finished third in its group and thus failed to qualify for the semi-finals. At the end of each qualifying round which involved a home and an away tie, the club made losses averaging US\$63,801.95. Table 5.20 below shows the revenue and expenditure analysis for the club's participation in the competition based on actual figures. The round cost include: airfares and travel allowances for players and staff of the club for the away match; local transport, accommodation, and feeding of the visiting team for the home match; and the travel, feeding and accommodation of match officials for the home match.

<b>Table 5.18: Revenue and Expenditure Analysis for Various Stages of CAF Champions League (US\$)</b>							
<b>RANKING</b>	<b>ROUND COST</b>	<b>CUM. COST</b>	<b>GATES REVENUE</b>	<b>CUMULATIVE GATE REVENUE</b>	<b>CAF PRIZE MONEY</b>	<b>TOTAL REVENUE</b>	<b>PROFIT/LOSS</b>
<b>1ST ROUND</b>	127,598.00	127,598.00	63,793.05	63,793.05	-	63,793.05	<b>-63,801.95</b>
<b>2ND ROUND</b>	127,598.00	255,196.00	63,793.05	127,586.10	-	127,586.10	<b>-127,610.00</b>
<b>3RD ROUND</b>	127,598.00	382,794.00	63,793.05	191,379.15	-	191,379.15	<b>-191,414.85</b>
<b>4TH IN GROUP</b>	382,794.00	765,588.00	191,379.15	382,758.30	400,000.00	782,758.30	<b>17,170.00</b>
<b>3RD IN GROUP</b>	382,794.00	765,588.00	191,379.15	382,758.30	500,000.00	882,758.30	<b>117,170.00</b>
<b>SEMIFINAL LOSER</b>	127,598.00	893,186.00	63,793.05	446,551.35	700,000.00	1,146,551.35	<b>253,365.30</b>
<b>RUNNER-UP</b>	127,598.00	1,020,784.00	63,793.05	510,344.40	1,000,000.00	1,510,344.40	<b>489,560.40</b>
<b>WINNER</b>	127,598.00	1,020,784.00	63,793.05	510,344.40	1,500,000.00	2,010,344.40	<b>989,560.00</b>
<b>Source: Author's own calculations using data from Kotoko's 2008 participation in CAF Inter-club competitions</b>							

The total revenue for the first three rounds was from gate proceeds alone as the organizers do not pay any prize money until the group stages. The total revenue during the group stages is made up of gate revenue and the CAF prize money. By the end of the first three qualifying rounds, Kotoko had accumulated losses of US\$191,414.85. This implies that had it not qualified for the group stages, it would have made a net loss of almost US\$0.2 million. Thus for finishing 4<sup>th</sup> in the group, the club earned total revenue of US\$782,758.3 comprising US\$400,000 in prize money and US\$382,000 from the six home matches played in total. This gives a net profit of US\$17,170. Winning the

competition would have given them a profit of almost US\$1 million, assuming the gate revenue and expenditure patterns remained similar to that of the early round. Figure 5.7 above shows that Kotoko only breaks even by reaching the group stages of the CAF Champions League (CL) competition. Similar calculations have been made for the CAF Confederations cup and this reveals that it would only break even in the Confederations Cup (CC) if it finishes 2<sup>nd</sup> in the competition.

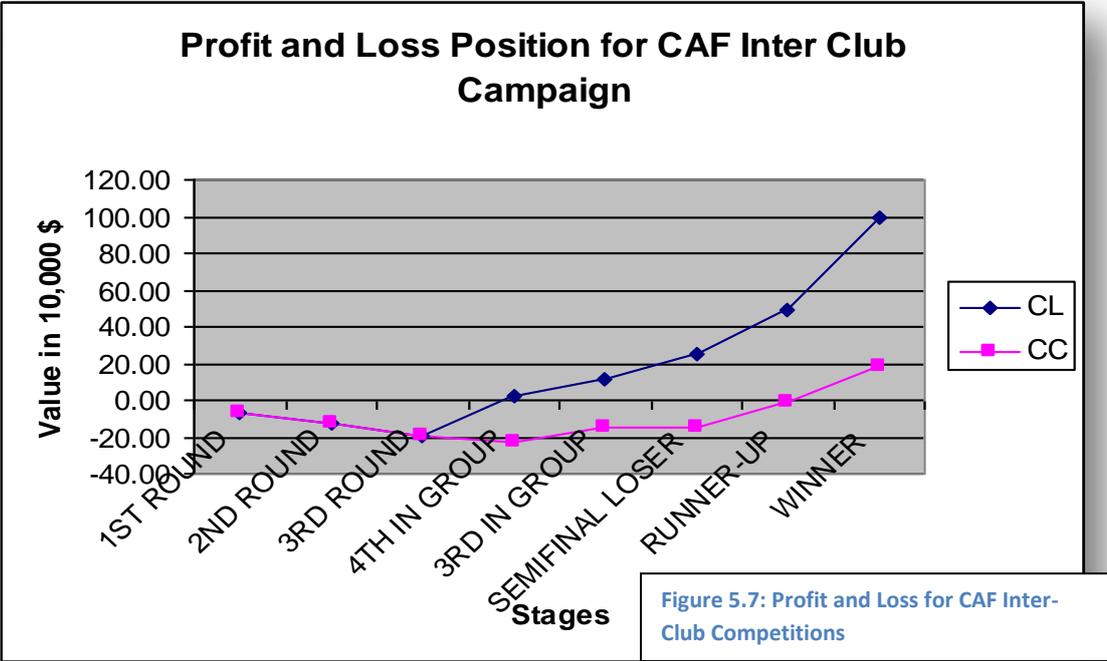


Figure 5.7: Profit and Loss for CAF Inter-Club Competitions

This implies that for teams with match revenue and expenditure streams similar to that of Kotoko, the CAF inter-club competitions are quite dissimilar to the UEFA competitions in terms of being financially lucrative competitions for Ghanaian clubs.

Moreover historically, Kotoko earns over four times the revenue received by the average Ghanaian club from match revenue (see Table 5.5). Thus other Ghanaian clubs playing in Africa would make considerably less money than that specified in the calculations in table 5.18 above. This implies that at every stage of the competition, all things being equal, other clubs' losses would exceed those estimated for Kotoko and that any profit made would be considerably lower than what estimated for Kotoko. Thus other Ghanaian clubs would need to go further in the competition than Kotoko merely to break-even.

Table 5.19 shows the effect of simulating the effect of a government grant of say, US\$210,000 paid to Kotoko in 3 installments, on its profit/loss position. This amount is what is required to allow the club just to cover its losses in the qualifying rounds. US\$70,000 is assumed to be paid during each of the three qualifying rounds of the competition, and none during the group stages, when CAF begins to pay prize money.

<b>RANKING</b>	<b>CL- Without</b>	<b>CC -Without</b>	<b>CL - With</b>	<b>CC - With</b>
<b>1ST ROUND</b>	-63,801.95	-63,801.95	6,206.95	6,206.95
<b>2ND ROUND</b>	-127,610.00	-127,610.00	12,390.00	12,390.00
<b>3RD ROUND</b>	-191,414.85	-191,414.85	18,620.85	18,620.85
<b>4TH IN GROUP</b>	17,170.00	-232,830.00	407,170.30	-22,829.70
<b>3RD IN GROUP</b>	117,170.00	-143,830.00	687,170.30	66,170.30
<b>SEMIFINAL LOSER</b>	253,365.30	-143,830.00	823,365.35	66,170.30
<b>RUNNER-UP</b>	489,560.40	-14,635.00	1,059,560.40	195,365.00
<b>WINNER</b>	989,560.00	178,365.00	1,431,962.40	388,365.00

The Government grant makes the Champions League a profitable venture at every stage of the competition for a club with Kotoko's characteristics, whilst the Confederation's Cup also becomes a financial viable venture unless one finishes bottom of the group stages of the competition. Even then, the loss made may be easily covered by the indirect benefits obtained from participation.

## **5.6 ANALYSIS AND CONCLUSIONS**

### **5.6.1 Financial Disclosure**

Similar to the position put forward by Stigler (1971) and Becker (1983) the GFA adopts the position that clubs would not comply with submission requirements for financial statements unless they believed that non-compliance would be detected and severely punished. However, the credibility of the submitted accounts cannot be guaranteed given the evidence reported in section 5.2.2 which suggested that some of the figures in the audited financial statements might have been manipulated by clubs either to conceal the true financial position or as a legitimating activity to ensure the club received its licence (Morrow, 2006).

There are considerable challenges in terms of information disclosure due to a lack of consistency in accounting treatment adopted by clubs, resulting in a lack of comparable information from the financial statements of different clubs. For instance, there is little link between the organizational structure of clubs and the type of income statement drawn by the clubs, something which may arise due

to a lack of guidance from the GFA. Understandably, the difficulty in estimating brand values, rather than an unwillingness to provide information may be the main factor in the obvious understatement of the total intangible assets of the clubs.

It seems a common practice that majority of the information meant to be included in the balance sheet is recorded as notes to the accounts, with little information in the main document itself. Whilst in effect this implies that the information has still been made available, obscuring vital information in the Notes might be an attempt by club managers to bias the opinion of users of the accounts. Also, even where clubs meet mandatory disclosure requirement the evidence suggest that they might be unwilling to provide any information beyond what the regulation requires them to do. Clubs have changed accounting years without providing comparative figures for prior years, which is contrary to the fundamental accounting concept of comparability (Barrow, 2011; Coyle, 2000; Gasking, 1999). Figures relating to one year that appear differently in two sets of accounts but without comments on prior year's adjustments raise questions about the consistency of the accounting carried out by the clubs. This coupled with the changing of club auditors without recourse to the guidelines set in the Companies Code would seem to suggest an attempt to obscure information to suit the purposes of the company and its management (Coyle, 2000).

In general, differences in the ways clubs treat player recruitment costs in their accounts makes comparing the financial performance of different clubs in Ghana a difficult endeavor. There is also little evidence of attempts by the clubs to re-value the players' for impairment due to loss of form, injury or age

(Morrow, 1999), as requested by the UEFA FFPRs. It would be beneficial for legislation to standardize the accounting practices of Ghanaian clubs to allow for comparison of financial figures within clubs over different years and across clubs within a year.

Secondly the differing treatment of depreciation of fixed assets by the different clubs would suggest that comparison of asset changes between clubs should be done with extreme caution. Whilst the choice of the rate of depreciation and amortization of fixed tangible and intangible assets respectively must reflect the peculiar realities within a given company (Siciliano, 2003), it creates opportunities for abuses. This creates differences in processes that cannot be justified, within the same industry. There is, therefore, a need for standardization in terms of how various items are treated within the financial statements of clubs to allow for comparability across clubs and over time.

To the extent that no club has been punished for non-submission of financial statements during the period under consideration, the retrieval of only 45 out of a possible 91 submitted accounts after a one year search would seem to suggest the absence of proper information management within the FA. Inappropriate storage systems at the FA hinder any attempt to analyze the financial statements and provide feedback to the clubs. The lack of feedback from the GFA to the clubs could also generate adverse motivational effects for the clubs, e.g. the perception among clubs that the GFA 'does nothing' with the submitted reports. They might consider the process of submission of the audited financial statements as being of little importance. Beyond the need to meet information disclosure requirements by stakeholders internal to the club,

and in the absence of other incentives to encourage compliance, there is a likelihood that the quality of the information disclosure process would suffer.

Evidently clubs have made no attempt to go beyond compliance with the submission requirements, and instead often submit documents that generally lack the quality to usefully serve the purpose for which the GFA introduced the legislation in 2003. This provides support for the argument by Gunningham that the indiscriminate use of deterrence could have counter-productive consequences, as club managers may 'refuse to do anything more than minimally comply with existing regulation' (2010, p. 124). These findings confirm the results of Sarpong (1999) who found evidence of non-compliance with the requirements of the Ghana Companies Code and Ghana National Accounting Standards by Ghanaian firms in general.

The section raises concerns about not only the quality and extent of financial disclosures made by the clubs, but also the quality of auditing done by the clubs' auditors. It also raises doubts about the validity of the opinions expressed by the various auditors especially where they suggest that their auditing has been done based on international auditing standards. Overall critical challenges exist in terms of the monitoring and enforcement of financial disclosure by the Ghana Football Association in respect of Ghanaian clubs.

### **5.6.2 Financial Performance**

The low and declining level of revenue obtained by Ghanaian clubs is in contrast to the experience in the major European countries where increasing

media rights have ensured generally increasing revenue for clubs in England (Morrow, 2011; 2006; 1999; Walters & Hamil, 2013); Germany (Dietl & Franck, 2007; Frick and Prinz, 2006; Lago et al., 2006); Spain (Ascari & Gagnepain, 2006); and Italy (Baroncelli & Lago, 2006). Revenue is also skewed towards the two major clubs, Kotoko and Hearts. However, the share of league revenues controlled by the top two clubs in Ghana is significantly lower than the near 50% share of Ajax and PSV in the Dutch Eredivisie (Pieters and De Schryver, 2011), and compares favorably with that of the Belgian league (Balduck and Lucidarme, 2011).

Whilst little evidence-based academic work has been carried out to date, it is quite possible the high levels of player migration have affected match attendances which in turn had a detrimental impact on revenue generated via gate receipts (Bediako, 2012; Darby, 2010). The increased access to foreign league games which cost less to watch on television as compared to the travel cost involved in watching domestic league games might also account for the low attendance figures (see Table 6.5).

The percentage contribution of match revenue within total revenue is also on the decline, similar to recent experience in some European countries. For example, gate revenue fell from 80.85% of the budget of the average Belgian club in the 1990s, to only 25.8% in 2008/09 (Balduck and Lucidarme, 2011). It has also fallen from 80 % in the 1970s in France to around 15% since 2000 (Senaux, 2011), and in Germany it now accounts for only about 21% of total revenue (Wilkesmann et al, 2011). Whilst the decline in share in Europe could be interpreted positively in that it is attributable to an increase in media rights revenue, the same cannot be said of the situation in Ghana. Rather, the FA has

had to re-negotiate downwards the title rights to even the league between 2011 and 2013.

The differing ratio of gross match revenue accruing to clubs in Ghana is as a result of the minimum expenditure required for the execution of the game at a particular league center. Where the difference between gross revenue and match expenses is low, i.e. close to zero, the proportion of gross revenue that goes to the club will be low. Thus clubs with relatively low gross revenue but high operational cost in terms of match expenses would receive a low share of gross revenues.

Revenue from player sales is unpredictable and thus cannot be relied upon as a reliable source of revenue. On the average it only accounts for about 17% of total revenue for Ghanaian clubs, similar to the range found by Mutter & Huber (2011) for Swiss clubs.

Growth in expenditure occurring across all clubs has been fuelled generally by growth in player cost. This, of course, is not peculiar to Ghanaian football as it is a key feature of majority of European leagues (see Gammelsaeter & Senaux, 2011; Hamil and Chadwick, 2010; Lago et al., 2006; Morrow, 2011; Walters and Hamil, 2013). It is the source of the financial problems facing clubs in Italy where salaries have risen faster (453%) than annual turnover (216%) in the decade before 2006 according to Baroncelli and Lago (2006). Spanish clubs have seen increased expenditure on players being fuelled by increased revenue (Ascari & Gagnepain, 2006), unlike in Ghana where increased player expenditure has generally happened at a period where clubs are also experiencing falls in revenue.

The fall in revenue and the accompanying increase in expenditure have resulted in Ghanaian clubs making losses on an annual basis. It must be stated however that the existence of operating losses do not necessarily show financial crisis (Lago et al., 2006). It is a generally accepted view that most football clubs around the world make losses on a consistent basis. According to Franck and Lang (2013) out of the 734 European top division clubs whose finances were analyzed, about 56% of them reported net losses in the financial year 2010. Clubs in England, Germany, Spain, Italy, France and Portugal are known to make losses on an annual basis (Dietl & Franck, 2007; Hamil and Chadwick, 2010; Morrow, 1999, 2006, 2011; Walters and Hamil, 2013) with some English and Scottish clubs going into administration on a regular basis (Morrow, 2011; Walters and Hamil, 2013).

The financial position of Ghanaian clubs is not dissimilar to that of their counterparts in most European countries. A challenge, however, is that accumulating debts if unchecked would become unsustainable in the long run, leading to the collapse of the clubs (Lago et al., 2006). For example, more than half of the Scottish Premier League clubs were insolvent with liabilities greater than assets at their 2003 year ends (Morrow, 2006), even though only a few end up folding-up. The majority of Ghanaian clubs are dependent on loans given out by Directors who behave effectively as 'benefactor-owners' to the clubs and bail them out as and when required. Most clubs make less money annually than their accumulated debts to their directors. This would seem to suggest that if the Directors decide to recall their loans to the clubs these clubs would not be able to repay their loans within a reasonable time period.

It could be argued that the finances of clubs supported by benefactor owners are more volatile, as those clubs' ability to sustain the debts and remain in operation is almost entirely dependent on the fortunes of the personal business endeavors of the directors and owners (Franck and Lang, 2013). As has been argued in section 3.1.2, UEFA's Financial Fair Play regulations attempt to direct funding from investors towards longer term and less risky investment such as youth development, football infrastructure and community development; investment which also has long term implications for the finances of the clubs.

However, in Ghana, the alternative sources of income such as gate revenue, sponsorship and player sales are just as volatile as funding from owners and directors, if not more so. Thus the lack of viable alternative sources of revenue would seem to suggest that clubs do not have a choice but to rely on the magnanimity of rich directors and owners, even with its associated risks.

Ghanaian clubs like their counterparts elsewhere around the world have overdue debts resulting from player transfer activity. They are able to buy players on credit as a result of an informal, but inefficient, system of guarantee operated by the GFA. Ostensibly this allows clubs to resolve their short-term cash-flow problems that would have been compounded by an expectation to pay for player purchases instantaneously. The process of crediting clubs with their share of league rights revenue and debiting them in respect of payments due other clubs in respect of player transfers is similar to the operation of a clearing-house. However, weaknesses exist in the operation of the player transfer payment system as clubs over-collateralize their share of the league rights revenue resulting in debts remaining unpaid well beyond the agreed payment period. Any attempt at improving the financial management systems in

Ghana football would have to rationalise the operations of this informal debt-clearing system; building on its operational advantages while remedying its inherent weaknesses.

### **5.6.3 Financial Management of Clubs**

The asset base of the clubs is very low (section 5.3.4). For instance, only two clubs own the grounds on which they play their matches and thus they cannot use them as collateral for loans. Revenue from player sales is highly volatile and unpredictable such that it represented 50 % of total revenue for Hearts of Oak in 2010 but zero percent the following year. Clubs cannot therefore count player values as assets to be used as collateral. Match revenue is very low (see Table 5.5 and Table 5.9) and is very much dependent on the unpredictable performance of the club, as season tickets are not a feature of the Ghanaian game. The high volatility and unpredictability of flow of funds from both gate revenue and sponsorship revenue mean that the clubs lack adequate collateral to convince financial institutions to provide short term and long term funding to the clubs.

Directors' guarantee, which Morrow (1999) suggest is used by Scottish and English clubs as collateral for bank loans is not a more attractive alternative source of collateral for a club which could obtain funding from the Director him or herself, usually on an interest free basis. The continual losses incurred by clubs (see Table 5.3) shows weak financial performance of clubs in Ghana. The net liability position of the clubs in the league taken as a group (see Table 5.7), despite individual differences, makes the clubs risky and unattractive clients for

the financial industry. As has been discussed in Chapter 1, the cost of credit in Ghana is very high compared to that found in the European financial markets. Thus the combination of lack of collateral, the high cost of credit, poor financial performance of clubs and a weak financial position makes funding from financial institutions not a viable option for most Ghanaian league clubs.

Apart from Kotoko, Hearts and Chelsea, no Ghanaian club has ever played in the group stages of any of the two CAF competitions. Hearts won the competition in 2000, and the last time Kotoko won the competition in 1983, no prize money was on offer. In 2003, Kotoko and Hearts became the first two teams to compete for the Confederations Cup trophy, which was won by Hearts. Chelsea only finished 3<sup>rd</sup> in the group stages of the Champions League competition. The recent record of Ghanaian clubs in the competition is unimpressive. Thus the probability of the clubs progressing beyond the group stages and earning profits is quite small.

In effect, the CAF inter-club competitions in themselves are not very attractive to most Ghanaian clubs, explaining why several clubs have refused to participate even when they qualify on sporting merit. The 2011 FA Cup winners, FC Nania turned down the offer to take part in the 2012 CAF Confederations Cup on financial grounds. However, it needs to be argued that whilst the competitions might not be economically viable based on private benefits and cost considerations, participation may be justified on a broader social cost-benefit basis. Participation in the competitions provides bigger platforms for Ghanaian youth to harness their skills, and to prepare for national team assignments; things which could be seen as beneficial to society more generally. Thus government support for clubs' participation in CAF inter-club

competitions could be justified on grounds of the positive externalities generated by the clubs.

#### **5.6.4 Conclusions**

The aim of this chapter was to assess the financial disclosure practices of Ghanaian clubs. It was also to evaluate the financial performance and position of Ghanaian professional clubs. This chapter discussed financial disclosure practices, performance and issues affecting the financial management of clubs in Ghana's premier league that generate systemic challenges requiring modifications to the existing regulatory framework. The study has found that the level of financial disclosure by clubs in the league is very low. More importantly, the disclosure that is available indicated that several clubs are in financial difficulties. These difficulties have resulted from volatile revenues, expanding expenditure levels, accumulating debt and a negative net asset position, financed by resources from single owners behaving as 'sugar-daddies'.

The level of financial disclosure is considered low as clubs submit audited financial statements merely to satisfy submission requirements and hence to avoid being punished. Meanwhile the storage and retrieval of submitted documents is inefficient bringing into question the internal control mechanisms of the FA, and whether the documents are reviewed upon submission. The credibility of the submitted financial statements cannot be guaranteed as they do not always conform to reporting standards of the Ghana Accounting Standards Board. As such the opinion expressed by the auditors cannot always be relied on. The differing treatment of asset depreciation and amortization by clubs makes comparability difficult. Some accounts do not include prior year

figures, which make an assessment of performance difficult, and these, ironically, coincide with periods within which clubs change auditors or change their accounting years. This leaves room for speculation that these changes might be an attempt by the clubs to hide their true financial position.

The poor quality of financial disclosure in the Ghanaian premier league is a symptom of regulatory failure, highlighting clear challenges with the existing regulatory framework. The lack of review of submitted financial statements for example, would be suggestive of, among other things, a lack of financial management capacity within the FA set-up. These challenges make a strong argument of the need for a financial regulatory framework that incorporates financial licensing as a core feature. This thus would require the setting up of a body with the requisite financial capabilities to review the financial documents and advise the clubs and the FA on proper financial disclosure standards.

The financial licensing system which should be built along the guidelines provided by the FIFA Club Licensing regulations and the UEFA CL & FFPR should ensure that financial disclosure guidelines are provided for clubs in Ghana. A standard format for financial reporting that allows for comparison between the financial performance of one club and another over time, as well as auditing standards incorporated into the financial licensing process is required. A system of financial statements review would allow for feedback to be given to clubs by the licensing bodies and would resolve the apparent lack of motivation on the part of clubs to submit credible documents.

The pursuit of sporting success has led to the financial instability of majority of Ghanaian clubs. This has been as a result of an expanding player cost in the

face of volatile match and player transfer revenues, and an unreliable flow of sponsorship and media rights revenue. Revenue from matches has fallen as a result of depleting player quality and low marketing drives by the FA. The short-term solvency of the clubs is due more to a generation of sugar-daddy owners, who are prepared to underwrite the debt of the clubs in the short run. The low utilization of credit from the financial sector is due to an inability of clubs to provide sufficient collateral guarantee resulting from their low assets base, and the high cost of credit in the country. The untimely nature of payments of sponsorship and media rights revenue forces clubs to resort to borrowing sources which generate unexpected debt-overhang. Clubs have accumulated debts which in comparison to their assets makes majority of them technically bankrupt and unattractive clients to financial institutions.

This provides further argument of the need for a regulatory framework that ensures regulated access to credit for clubs through the establishment of player transfer payment system that functions as a clearinghouse. This would ensure that payments which are due to other clubs are paid, where necessary from a club's share of rights revenue, whilst at the same time ensuring clubs do not unduly take on debt they cannot service. By coordinating the player transfer payment system, this body would ensure the continuous flow of funding within the football economy.

Secondly, the financial regulator for Ghanaian football would also have to support the existing loan guarantee system that allows clubs to obtain short term debt from the FA, its affiliates like GHALCA and other financial institutions. For example, by providing credit guarantees to the clubs, the financial regulator would allow clubs to access credit at lower than normal rates from formal

financial sector institutions. Their ability to provide such credible guarantees would be greatly enhanced by the volume of financial information at their disposal as a result of the review of the financial data provided by the clubs. Thus the process of ensuring regulated access to funding for clubs would be enhanced by the financial licensing and monitoring component of the regulatory framework, discussed above.

Unlike their European counterparts, Ghanaian clubs do not find the CAF inter-club competitions a lucrative venture whose participation automatically generates profits. The pursuit of sporting success at the continental level invariably leaves Ghanaian clubs with debts due to their inability to perform to the level that would ensure the provision of adequate financial rewards (see section 5.5.4). However the external benefits in terms of youth development through the participation and exposure the clubs give to the youth provides justification for Government support. Meanwhile Government support has the potential of making participation a worthwhile venture. The financial regulator, serving as a policy advocate should be in a position to help the clubs access funding from sources that have previously been left unexploited such as government. With the requisite knowledge and financial information, the regulator could lobby government for support for clubs' participation in such competitions as well as for youth and infrastructure development.

A contextual framework for the financial regulation of football in Ghana is developed in the next section. This incentive based context-specific framework is proposed to deal with the challenges of ensuring regulated access to credit, financial licensing and monitoring of clubs, and providing financial advocacy on behalf of the clubs.

# CHAPTER VI

## THE FOOTBALL FINANCIAL CLEARINGHOUSE –

### A CONCEPTUAL FRAMEWORK

#### 6.1 INTRODUCTION

The aim of this study is to critically review the framework for the financial regulation of professional football in Ghana and propose an appropriate framework specific to the context of Ghana. In order to achieve this aim, a critical review of the theoretical literature was done in chapter 2 which resulted in Sappington's framework being adopted as the conceptual framework for the development of the context specific framework for Ghana. The critical review of existing regulatory frameworks in Ghana done in chapter 4 and the review of Ghanaian football finance in chapter 5 provide the institutional framework and the industry conditions within which the context-specific framework is to be developed.

This chapter therefore concentrates on the development of an incentive-based context-specific financial regulatory framework referred to as the Football Financial Clearinghouse (FFC) model. This chapter thus discusses this framework at the conceptual level, which is then tested in subsequent chapters and the final version of the model is developed, in chapter 8, as the outcome of this study.

The chapter begins in section 6.2 with a discussion of the concept of clearinghouses and how they have been applied in various spheres such as finance and economics, medicine, the arts, and in sports. Section 6.3 then discusses the determinants of the scope, function and form that the regulatory framework takes. This would include the objectives, resources and the industry conditions within which the framework is expected to operate. Section 6.4 deals with the scope and form of the regulatory framework whilst 6.5 discuss the functions of the regulation. This includes: the process of licensing the clubs to ensure improved financial management; the incentivising components of the framework; and the various deterrence and compliance strategies inherent in the framework.

Even though the study attempts to develop a regulatory framework which is football specific, and is meant to be relevant for the Ghanaian context, it does not ignore the importance of the many experiences and examples available from other countries especially in Europe. For example the concept of the FFC Board, is an adaptation of UEFA's Football Financial Control Body (FFCB), whilst the licensing framework is an incorporation of the FFC Board into the German Club Licensing framework.

## **6.2 THE CONCEPT OF A CLEARING-HOUSE**

This section discusses the concept of clearing houses and how they are utilised in economics and finance, the arts and sciences, and in sports. The key features of clearing-houses that are of relevance to this study are also drawn out for use in the subsequent sections.

### 6.2.1 Clearing-houses in Economics and Finance

The Oxford Dictionary of Economics, edited by Black, Hashimzade and Myles defines a clearing-house as:

“---An institution where claims by various banks against each other are offset---”.

(2012, pp. 62)

The Routledge Dictionary of Economics on the other hand defines it in terms of the institution which deals in the settlement of the mutual indebtedness of commercial banks (Rutherford, 2002). In essence, these definitions suggest that each financial institution sends its representative to the clearing-house where debit items are cleared against credit items. Subsequently, the balance is struck and the creditor banks receive payments from the debtor banks (Timberlake, 1984, p3). This implies that orders for payments are accumulated over time and then the clearinghouse helps the market to clear these periodically. They are thus considered as one of the most fundamental market mechanisms and are essential for trade (Mendelson, 1982)

Timberlake (1984) suggests further that even before the bank panics in the United States of America (USA) of 1857, clearinghouses were already in existence. By the time of the 1907 bank panic clearinghouse associations had gone to the extent of providing what he termed as ‘make-shift currency’; an alternative to the existing legal tender in which people had lost confidence because of the panic.

Goodhart (1988) considers the association of clearinghouses as having played a key role in the evolution of central banking, and today central banks still perform a role as a clearinghouse for commercial banks. He argues that the key feature of a central bank - crucial to the performance of its role as a clearinghouse - is its non-competitive nature. Thus the central bank does not compete with the members of the clearing-house, i.e. the banks.

In foreign exchange markets, forwards and futures prices are determined through a system in which a clearing-house acts as both the seller for every buyer and a buyer for every seller (Cornell and Reinganum, 1981). This could be argued to be an attempt by the clearing-house to deal with the problems of information asymmetry between the buyer and the seller, reduce the cost associated with matching a buyer with a seller, and trade risks for market participants. More recently, Acharya et al (2008) have recommended the creation of a centralized clearinghouse which would take on the role of counterparty and guarantor of all contracts for trade in credit derivatives. This system, they suggest, would be superior to a pure over-the-counter (OTC) market structure.

### **6.2.2 Clearing-houses in Arts and Sciences**

The American Society of Composers, Authors and Publishers (ASCAP) established a clearing-house in 1914 to deal with the cost associated with the use of large musical works in performances occurring simultaneously throughout the US (Finkelstein, 1966). This allowed producers of arts to trade efficiently with users of these works by reducing the cost and time consumed by

the user and copyright holder in negotiating for the use of individual pieces of work.

Long et al. (1992, 1993) draw attention to the importance of the advisory services provided to its stakeholders by the UK Clearing House for Information on the Assessment of Health Services Outcomes. This body was established in part to facilitate the development and application of measurement of health services outcomes through the provision of structured and coordinated information and advice (Long et al., 1992). In medicine, Zimmeren et al (2006) have entered the debate as to whether the creation of a clearinghouse for diagnostic testing is the solution to ensure access to and use of patented genetic inventions.

### **6.2.3 The Player Draft System in US Sports as a Clearing-House**

The player entry draft systems of the North American Sports Leagues (NASLs) could be likened to clearing-houses where teams' player rosters are re-stocked annually (Quinn, 2008). They are seen as an alternate to employing free-agents or player trades and purchases from other teams. Player drafts begun in the National Football League (NFL) in 1936 as an attempt to improve on between-club competitive balance and to limit the potential for player-cost inflation resulting from teams competing against each other to attract the best playing talents.

The use of the reverse-order-of-finish draft as the means to improve competitive balance has however been challenged by sports economists on the

basis of Rotenberg's Invariance Principle (see Kesenne, 2007). The argument is that if the transaction cost associated with player transfers from one club to the other is minimal then the initial allocation of player talent would not affect the eventual destination of the player (Berri, Schmidt and Brooks, 2006; Quinn, 2008). Despite these limitations however, other leagues have adopted the draft system, with the National Basketball Association (NBA) being the first to follow suit in 1947, and the Major League Baseball, National Hockey League and the Major League Soccer (MLS) all subsequently joining.

The draft system defines an eligibility criterion for players that could be drafted and rules that licensed member teams have to follow for the smooth working of the 'clearing-house'. The resource cost of doing business is considerably reduced for each member of the league with the provision of some level of centralized scouting services for the teams. Thus a lot of information about potential draftees is produced within the league for the benefit of members. This also reduces the risk associated with individual clubs buying players who have low probability of achieving success in a particular league at high costs. The drafting 'clearinghouse' that allocates players to the various teams also places some restrictions on the level of free agency enjoyed by draftees, reducing potential player replacement costs for the teams.

#### **6.2.4 The FIFA Transfer Matching System (TMS)**

Beyond the drafting system in the MLS in the USA, the closest thing to a clearing-house in football is FIFA's Transfer Matching System (TMS) which became operational in March 2010. The objective of the TMS system is to

improve transparency and efficiency in the international transfer of male players engaged in the 11-a-side version of football (Celen et al, 2010). Clubs  $X_1$  and  $X_2$  from member associations 1 and 2 respectively, involved in the transfer of player Y are obliged to sign a transfer agreement indicating the terms of the transfer. The terms would include the effective date of the transfer, details of the player involved, the financial details of the transfer and the type of transfer i.e. permanent transfer or loan. In the case of a loan the transfer agreement would have to indicate the duration of the loan (FIFA, 2012).

The two parties are then required to independently enter the details of the transfer agreement into an online system to match the details so that FIFA could verify that the two parties are really in agreement. Supporting documents such as the transfer agreement, proof of identity of the player, the player's contract with the selling club and his new contract with the buying club are required documents before FIFA can issue an International Transfer Certificate (ITC) to the association of the buying club.

Crucial to the issue of the ITC is the financial conditions of the agreement including: the total compensation due the selling club; the sell-on fee (Gurtler, 2012); the payment plan; and the commission due to player agents if any were involved in the transaction. The banking details of both parties are also entered into the online system indicating that all payments and receipts of payments are done solely between the clubs and not a third party representing any of the clubs. The clubs also give an undertaking that no part of the transfer fee has been paid to a third party, beyond the agents and federations involved This is to

deal with the potential challenges of money-laundering through player sales. FIFA TMS thus serves as a clearinghouse for the international transfer of players.

### **6.2.5 Summary**

The key concepts evident in the examples of clearing houses discussed above include licensing members for participation, regulating and monitoring their activities, and the provision of incentives and support services to ensure regulatory compliance. In performing these functions, clearing houses help smoothen the operations of members, reduce the risk of doing business with rival firms by building trust amongst member firms through information dissemination, and reduce the cost and time involved in trading amongst rivals. The incorporation of benefits to members of a clearing house is crucial to its operations.

It is these key features of the concept of clearing houses that are utilised in the development of an incentive based financial regulatory framework for Ghana. The concept of a clearing-house in respect of this study revolves around the two distinct uses of the word 'clearing'. The process of club financial licensing, which is a key component of the FFC framework, involves 'clearing' clubs for participation in international and domestic competition, in conformity with FIFA's desire to ensure that the credibility and financial stability of leagues around the world are not compromised (FIFA, 2010). Secondly, the financial transactions of clubs (payments and receipts) with other members of the FFC are also 'cleared' (approved) by the FFC Board to ensure the credibility of the football

financial system, and to ensure that the regulatory system as a whole is based on credible commitment of members (Veljanovski, 2010).

### **6.3 DETERMINANTS OF SCOPE, FUNCTION AND FORM OF THE FFC REGULATORY FRAMEWORK**

The issues that determine the scope, function and form of the Football Financial Clearing-house framework (FFC) have developed out of the review of regulatory theory (chapters 2), the review of existing financial regulatory frameworks (chapter 4), and the review of Ghanaian football finance (chapter 5) discussed earlier in this study. Chapter 6 provides an initial assessment of the industry conditions within which Ghanaian professional teams operate, and which is a relevant consideration in determining the functional objectives of any financial regulatory framework for Ghana.

#### **6.3.1 The Objectives of the Regulator**

One key determinant of the form, scope and function of regulation is its objectives (Sappington, 1994). The overall objective of the FFC framework is to provide for an incentive-based financial regulatory framework for professional football in Ghana. In general the framework would regulate, incentivise, provide support and monitor the financial activities of professional clubs.

In the context of the FIFA Club Licensing Regulations (FIFA, 2010), every financial regulatory framework including the FFC would incorporate a financial licensing system. As discussed previously (section 5.2), the quality and level of

financial disclosure by Ghanaian clubs is low and as such the FFC framework would have to deal with this problem by, for example, instituting a system of review of financial statements to provide feedback to clubs to ensure that they conform to existing national and international reporting standards. The existence of overdue debt arising from player transfers involving Ghanaian clubs provides support for FIFA's requirement that club licensing should ensure clubs do not have overdue debts to other clubs and social/tax authorities (FIFA, 2010, Annex F.02, F.03). The financial licensing framework would also assess the financial viability of clubs to provide the basis of the advisory services it provides its members, a key feature of clearing-houses.

The second key objective of the financial regulatory framework would be to provide incentives for regulatory compliance by clubs, by improving the financial environment facing professional football clubs. Financial incentives are known to motivate firms to comply, for instance, with tax regulations (Feld and Frey, 2007). This could be done, for instance by ensuring regulated access to funding for clubs, which is a key constraint for the clubs (section 5.5). The third objective is to provide support services to the clubs in terms of financial advisory services, training and advocacy.

The learning and performance of individuals and their organisations is improved by training (Millar and Stevens, 2012). Overall sport policy changes could also be greatly influenced by advocacy (Houlihan, 2005). The provision of the support services is in recognition of the lack of financial management capacity within the Ghanaian clubs and the GFA (see section 5.6.4). The FFC would

also engage itself in the continual monitoring of the financial management of the clubs to ensure compliance with regulatory directions. These objectives would thus determine the form and functions of the FFC as discussed in subsequent chapters.

### **6.3.2 Resources and Independence of Regulator**

The quantity and quality of resources available to the regulator and its distribution amongst the stakeholders may determine the scope and form that regulation takes, especially the independence of the regulator (Baldwin and Black, 2008; Sappington, 1994). It would be important that the professional qualification of the members of a financial regulator for Ghanaian football be defined under the regulation. The committee should be made up of people with the requisite skills in legal, administrative, finance, technical, etc. so as to be able to effectively discharge the statutory functions. UEFA has set an example with the quality of composition of its Club Financial Control Board (Appendix 6). The size of the regulating body should also be defined; making sure it is not too large to consume financial resources that are scarce within the Ghanaian context, and not too little to miss out on the kind of expertise needed to effectively carry out its functions.

The regulation should indicate from which constituency the membership of the Committee should be drawn i.e. whether from within 'the football family' as most other committees of the FA seem to be drawn from, or from people 'outside' the football family. This issue was interrogated as part of the fieldwork. It is important that the regulation is clear on the need to ensure that members of

the decision-making bodies are not linked to any known constituency within the governance structure of the FA. A really responsive regulatory regime should be perceived to be adequately dealing with the issue of conflict of interest and fairness as emphasised by Baldwin and Black (2008).

### **6.3.3 Industry Conditions and Institutional Structure**

The adaptation of international best practice guidelines in the formulation of a context specific set of regulations for a sector of the economy finds support in the development economics literature. Rodrik (2000), in referring to how institutions of high quality growth (including regulatory institutions) are acquired by developing countries, suggests that both local knowledge (industry expertise) and international best practices would be important for the proper functioning of the FFC framework (as a regulatory framework).

The initial evidence from the institutional environment (chapter 1) and the industry conditions (chapter 5) within which Ghanaian clubs operate suggests that the level of financial disclosure by clubs in the league is very low. Moreover, the review of available financial information indicates that several clubs are also in financial difficulties. These difficulties have resulted from volatile revenues, expanding expenditure levels, accumulating debt and a negative net asset position, financed by resources from single owners behaving as 'benefactor-owners'.

The poor quality of financial disclosure in the Ghanaian premier league is arguably a symptom of regulatory failure, indicating weaknesses within the

existing regulatory framework. The apparent lack of review of submitted financial statements for example, suggests, among other things, a lack of financial management capacity within the FA.

## **6.4 THE FORM AND SCOPE OF THE FFC FRAMEWORK**

This section discusses the proposed structure of the clearinghouse and its effect on the independence of the regulator.

### **6.4.1 Composition of the Clearing-house**

The members of the clearing-house should include the Football Financial Clearinghouse (FFC) Board, the decision-making body in respect of the financial regulation of professional football clubs. The Board would operate in a fashion similar to that of the Club Financial Control (CFC) Board of UEFA (UEFA, 2010) and the DCNG in France (Senaux, 2011). It is also responsible for implementing the Financial Criteria of the CLRs.

The FA is both a regulator (to the extent that the club licensing regulations are made by the FA) and a regulatee, implying a form of self-regulation (Coglianese and Mendelson, 2010). It serves as both an internal creditor and an internal debtor of the clubs. The successful implementation of the FFC framework would benefit the FA in terms of the improved quality of financial governance of its member clubs, ensuring the long term sustainability of the domestic competitions. This in turn should act to improve the attractiveness of the

domestic competitions for advertisers and sponsors, potentially increasing revenue levels of the football federation.

Other members of the clearinghouse would be the 16 clubs in the Premier Division and potentially, the 48 clubs in the Division One League. They owe money to both internal (FA and other clubs) and external (financial institutions) creditors. Financial institutions represent the external creditors of the professional clubs whose credit is guaranteed by the FFC, based on an agreement between them and the clubs. The financial institutions could conceivably be selected as a pool of firms or as a single financial institution recognised by the FA and the FFC as the official financial sponsor of the league. Its relationship with the clubs is then detailed out as part of the FFC structure. The rate at which they charge interest on credit to clubs could be a few percentage points below the market rate to ease the cost of credit to the clubs. The financial institution(s) benefit to the extent that they have a pool of clients whose business as a collective unit is less risky than dealing with them as individual clubs without guarantee (Zeller, 1998).

Other members could include the National Sports Authority (NSA) whose stadia are used by clubs; and government who could make resources available to clubs through specific annual financial votes for footballing activities. The government vote could be money for use in youth and infrastructure development, which is known to improve sport participation amongst the general populace (Wicker, 2013); participation in CAF Inter-club competitions; or for the training of technical staff. Equipment suppliers who provide clubs with discounts could obtain ready markets for their products by joining the

clearinghouse, whilst payments due them are guaranteed by the FFC. GHALCA, which also lends them money occasionally, could also be considered as members.

#### **6.4.2 Independence of the FFC Board**

The FFC Board would be a quasi-judicial body with the power to punish, sanction, fine or award costs against any defaulting member of the clearinghouse. This is because without requisite commitment ability it no longer becomes useful (Sappington, 1994). Secondly, the term of office of the Board cannot also be shortened by any other body e.g. the Executive Committee, as this would weaken the commitment ability of the Board. However, it should be possible to remove members on ethical grounds, as there is the possibility of regulators occasionally abusing the discretion given them (Sparrow, 2000). The independence of the decision making bodies especially that of the FFC Board, ensures that decisions on club licenses and membership of the FFC are based on the principle of equality and devoid of conflict of interest (SFA, 2013; UEFA, 2012b).

According to Rodrik (2000) the institutions that are needed by a country are not independent of that country's history. In the past, decisions of the judicial bodies of the FA could be set aside by the Management Board of the FA when it affects a Board Member's club (Bediako, 2012). Thus to forestall its re-occurrence, the decisions of the FFC Board should not be subject to review by the Executive Committee of the FA to ensure its independence and to avoid regulatory capture by the Executive Committee. This, however, is subject to the right of the aggrieved party to an appeal to the relevant appellate body set up

under the regulations, as even the most well-intentioned regulator might abuse its unfettered discretion (Veljanovski, 2010).

The Board is to be appointed by the Executive Committee on the proposal of the FA President. This is to ensure that the Board derives its powers from the Statutes of the FA. However, to further ensure the independence of the FFC Board and to reduce the possibility of conflict of interest, members of the FFC Board cannot be members of the Executive Committee, judicial bodies, Standing Committee of the FA, or a staff of the FA, League or clubs.

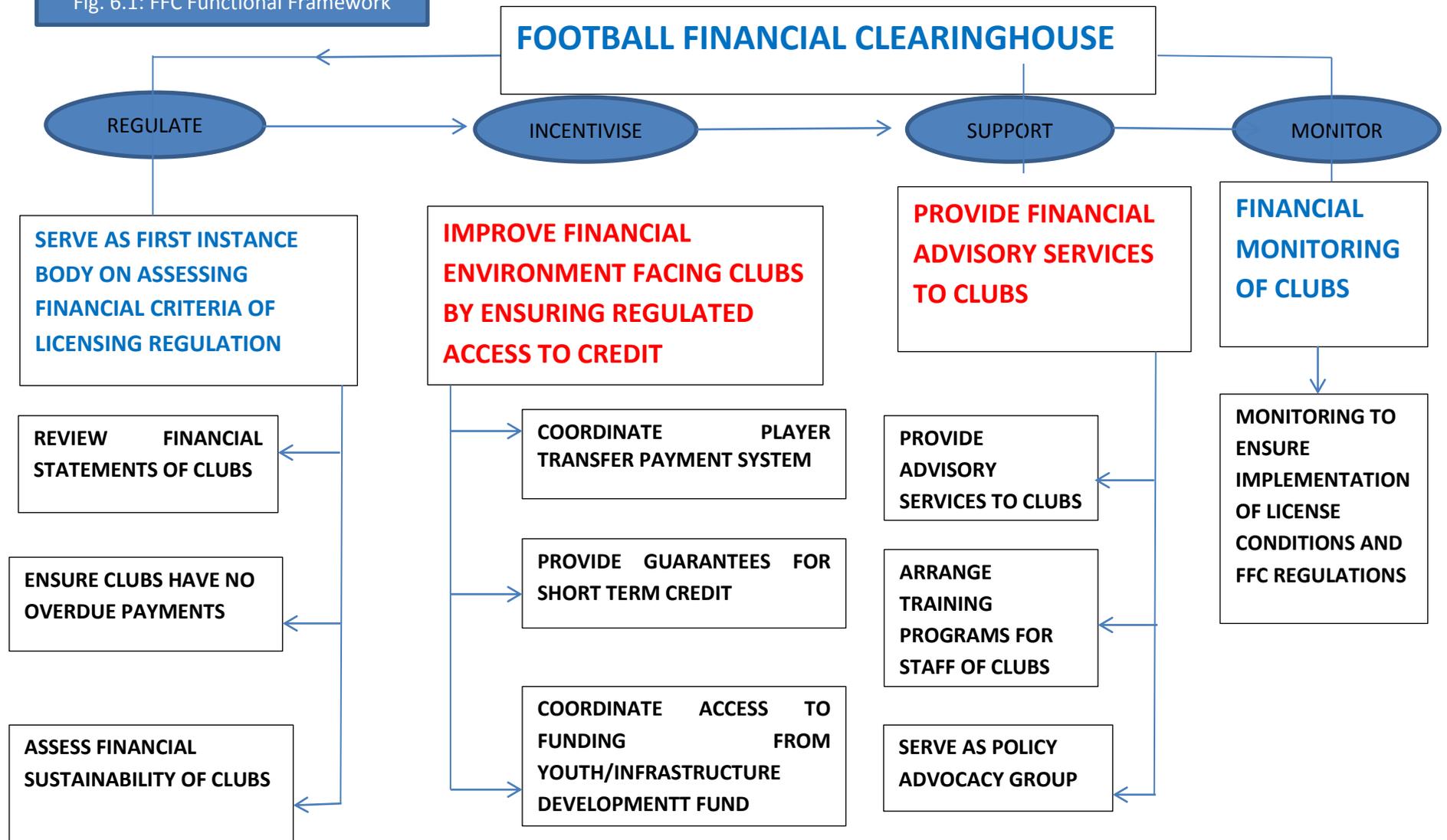
The probability of regulatory capture is a function of the quality of the human resources available to the regulatory institution. The professional competence of the members of the Board should not be in doubt and, as such, a greater proportion of the membership should be drawn from expertise in the field of banking, finance, law, accountancy, economics and auditing (see section 4.4.1). The quality of the personnel on the Board would also serve as checks on individual members' private motivations, as some regulators might have an interest in creating 'inefficient regulations' ('red-tape') in an attempt to extort rents from private firms (Schleifer and Vishny, 1994; de Soto, 1989;).

The ability of the Board to perform its function of advocacy would also be determined by the respect the members command as individuals, and as a group, amongst their peers and government functionaries within their area of expertise. The need for membership with varied expertise and years of experience should be weighed with the cost of remunerating the members of the Board. The better the quality of the Board the more expensive it might be to get them to provide the needed services.

## **6.5 FUNCTIONS OF THE FFC FRAMEWORK**

Figure 6.1 provides a general overview of the functions of the regulator under the FFC framework. It shows that the FFC Board would regulate and monitor the activities of clubs whilst providing incentives and support services to achieve regulatory compliance. Thus the realised performance of the regulatee is compared with established targets and goals and the club is rewarded accordingly (Sappington, 1994). Examples of the functions that could be performed by the regulator are also given in the diagram. Figure 6.2 on the other hand has been adapted from the framework utilised by the German FA in the licensing of its clubs, but has been made relevant to the Ghanaian case by incorporating the concept of the FFC Board. It shows the licensing framework within the FFC. A detail discussion of the contents is provided below.

Fig. 6.1: FFC Functional Framework



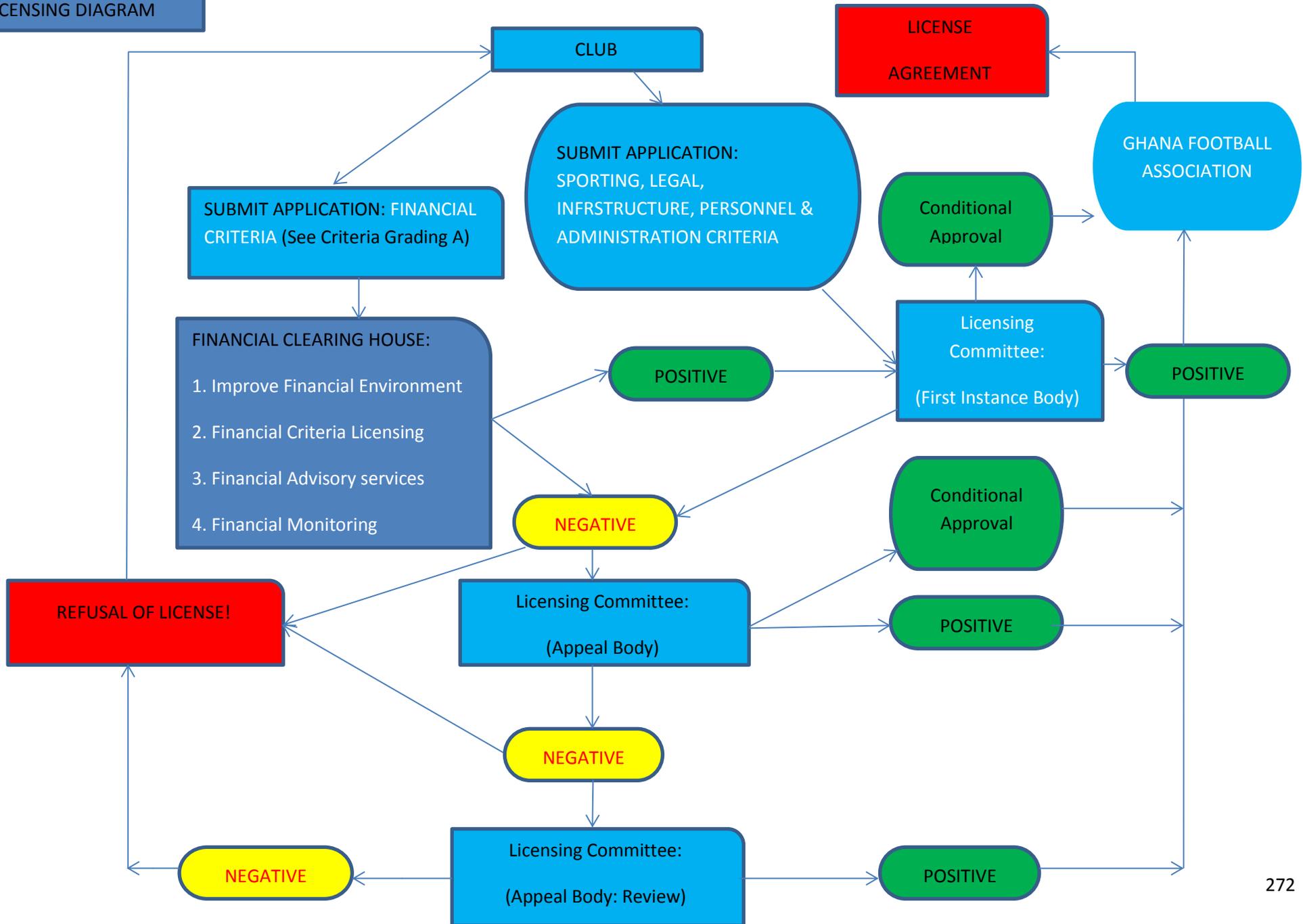
### **6.5.1 Licensing Clubs for Improved Financial Management**

This study proposes that the FFC Board would serve as the First-Instance-Body (FIB) for the Financial Criteria of the Club Licensing Regulations (Figure 6.1) with the FFC Manager and the FFC Office being the monitoring arm of the Board. To obtain a licence to take part in the professional league, all clubs would have to meet the minimum requirements defined under Criteria A and satisfy the conditions under Criteria B (see Appendix 11).

Within the proposed FFC framework, the football club submits its application (together with the documents listed in Appendix 12) in respect of the Financial Criteria to the FFC Board (FFCB) which serves as the FIB in respect of the Financial Criteria only (see Figure 6.2). For purposes of licensing, the information in the Balance Sheet and the Profit and Loss Account submitted to the FFCB by the club shall conform to the line items stipulated in Appendix 13 and 14 respectively. Applications in respect of the Sporting, Legal, Infrastructure, Personnel and Administration Criteria are all submitted directly to the Licensing Committee, the First Instance Body (FIB).

The Premier League Board currently accepts the financial statements, inspects the playing and training infrastructure, as well as office accommodation and equipment of clubs to determine their suitability to play in the league. The body, as currently constituted with representatives from some clubs, does not meet the eligibility criteria for independence as suggested by FIFA to function as the FIB nor serve as the FFCB as proposed by this study.

FIG. 6.2: CLUB LICENSING DIAGRAM



The suggestion is for the FFCB to only approve (POSITIVE) if the club satisfies all the minimum requirements of the financial criteria, and then the FFCB would be deemed to have 'cleared' the club in respect of the financial criteria. The application is forwarded to the FIB who has no further decision to make on the financial criteria. If the club satisfies all other criteria, the FIB issues an approval certificate to the club (Licensee) which then signs a License Agreement with the Licensor (GFA) promising to abide by the terms of the License. This could include allowing the Licensor or its assigns to regularly monitor the activities of the Licensee.

If there are any outstanding issues that the club has to satisfy to meet the minimum financial criteria, the FFCB would have to reject (NEGATIVE) the application. The club could decide not to appeal the rejection of its application, in which case the applicant is refused the license for the season. Where an application is rejected by the FFCB, the applicant could file an appeal with the Appeal Body (AB) which would consider its appeal on its merit. The AB could either reject the appeal (NEGATIVE), in which case the license is refused; give an unconditional approval (POSITIVE); or a Conditional Approval (CA).

Where an unconditional approval is given, the application is forwarded to the Licensor for a License Agreement to be signed with the club. Where a conditional approval is awarded by the AB, the License Agreement would specify the conditions that the club would have to abide by during the course of the license period. This could include payment of a fine or transfer bans as happens in UEFA (UEFA, 2012b). Where the AB rejects the application, the

club could ask for a review of the decision of the AB, in which case the AB would be re-constituted to consider the request. Failure to appeal the decision of the AB would result in the club being refused the licence for the said competition for that particular year.

To bring it in line with the existing appeals process of the FA, where the Review Panel considers the club's application to be unsatisfactory (NEGATIVE), the club should be refused a licence for the licence year, and there is no further right of appeal. The Review Panel could, however, set aside the original decision of the FFCB, and the Appeals Body if new and relevant information is provided by the club during the review process. Where the review by the AB is in favor of the applicant a license agreement is then signed by the applicant and the FA.

In respect of the Other Criteria, the application is submitted directly to the FIB which reviews the documentation together with physical visits to the club's offices, training facilities and stadium to be used for the season. The FIB could approve the application (POSITIVE), reject the application (NEGATIVE) or give a conditional approval. Where either an approval or conditional approval is the outcome of the review a license agreement detailing the terms of the approval is signed between the applicant and the Licensor.

### **6.5.2 Providing Incentives for Compliance**

The FFC framework aims at improving the financial environment within which professional clubs operate by coordinating the player transfer payment system,

guaranteeing credit from financial institutions and others for the clubs, and coordinating funding from the youth and Infrastructure Development Fund (Figure 6.1). This process provides the incentive for clubs to improve on the financial management of their clubs, and for regulatory compliance (Feld and Frey, 2007).

The proposal is for the FFC to establish a player transfer payment system, to replace the existing but ineffective informal debit and credit system of the FA. The effectiveness or otherwise of the existing structures is interrogated further in the next chapter. All player transfer agreements and payment schedules between members of the FFC have to be approved by the FFCB on the basis of the buying club showing proof of its ability to pay over the specified payment schedule period. This would be assessed by comparing information provided in its budget and cash-flow statement for the licence year with the audited accounts in the two years preceding the licence year. The comparison is made to ensure that the expected cash flows are consistent with the clubs previous financial performance. Clubs would be expected to explain any significant deviations, from previous years, in expected income. Clubs would not be allowed to purchase players within a particular transfer period if they do not show the capacity to pay when due, as a form of deterrence (Ayres & Braithwaite, 1992; Braithwaite, 2002).

It is the proposal of this study that the FFC would also seek to coordinate the flow of financial resources from financial institutions that agree to be part of the clearinghouse: from the Football Association; other affiliates of the FA; and equipment suppliers. This is to help reduce the transaction cost involved in

dealing with each other, resulting from information asymmetry (Cornell and Reinganum, 1981).

The loan arrangements between clubs and financial institutions, this study proposes, would have to be ratified by the FFC Board especially when the club seeks to collateralize its share of the rights payments to secure loans. The operations of a guarantee system would only be efficient if the FA ensures that monies due clubs from sponsorship and right sales are paid on time, as the interest repayments would be affected by the timeliness or otherwise of the revenue distribution system.

The FA and its affiliates like GHALCA occasionally extend short-term, interest free credit facilities to clubs, especially those participating in CAF Inter-Clubs competitions. This is deducted at source from the clubs' share of rights fees (see Appendix 9). The study's proposal is for equipment suppliers, recognised by the FFC as members who provide sporting equipment to clubs on a hire-purchase agreement, to be considered as creditors of the clubs. Also, loans beyond a certain amount of money, taken outside the operations of the FFC should be brought to the notice of the FFC. This is because these other loans potentially have an ability to limit a club's capacity to repay its loans contracted within the clearinghouse.

To ensure that Government's financial resources, that are introduced to support club football based on the social importance of football, are utilised efficiently, the FFC should coordinate the payment of money from the Youth and Infrastructure Development Fund to be set up to provide funding for clubs who show a commitment to government's ideal of youth development. Government

support to football clubs for youth and infrastructure development have been justified in countries such as France, Switzerland, Ireland and Portugal, on the grounds of the external social benefits generated by football clubs (Barros, 2011; Bourke, 2011; Mutter and Huber, 2011; Senaux, 2011). The Government would provide an annual vote for youth development at the grassroots level through football. Football clubs who are able to show a commitment to youth development and provide the youth with employment are cleared to access funding from this fund. The Government could also provide support for clubs who are committed to providing the infrastructure for the training of the youth, be it training pitches or hostel facilities for the players of their academy. This would link government support to specified performance targets (Coggburn and Schneider; 2003).

In summary the study considers these incentives as potentially being fundamental to the clubs conforming to the licensing regulations, given the particular circumstances of Ghanaian football. By coordinating player transfer payment system, providing guarantees for short term credit, and coordinating access to funding from government, the FFCB would be improving the financial environment facing clubs.

### **6.5.3 Provide Financial Advisory Services to Clubs**

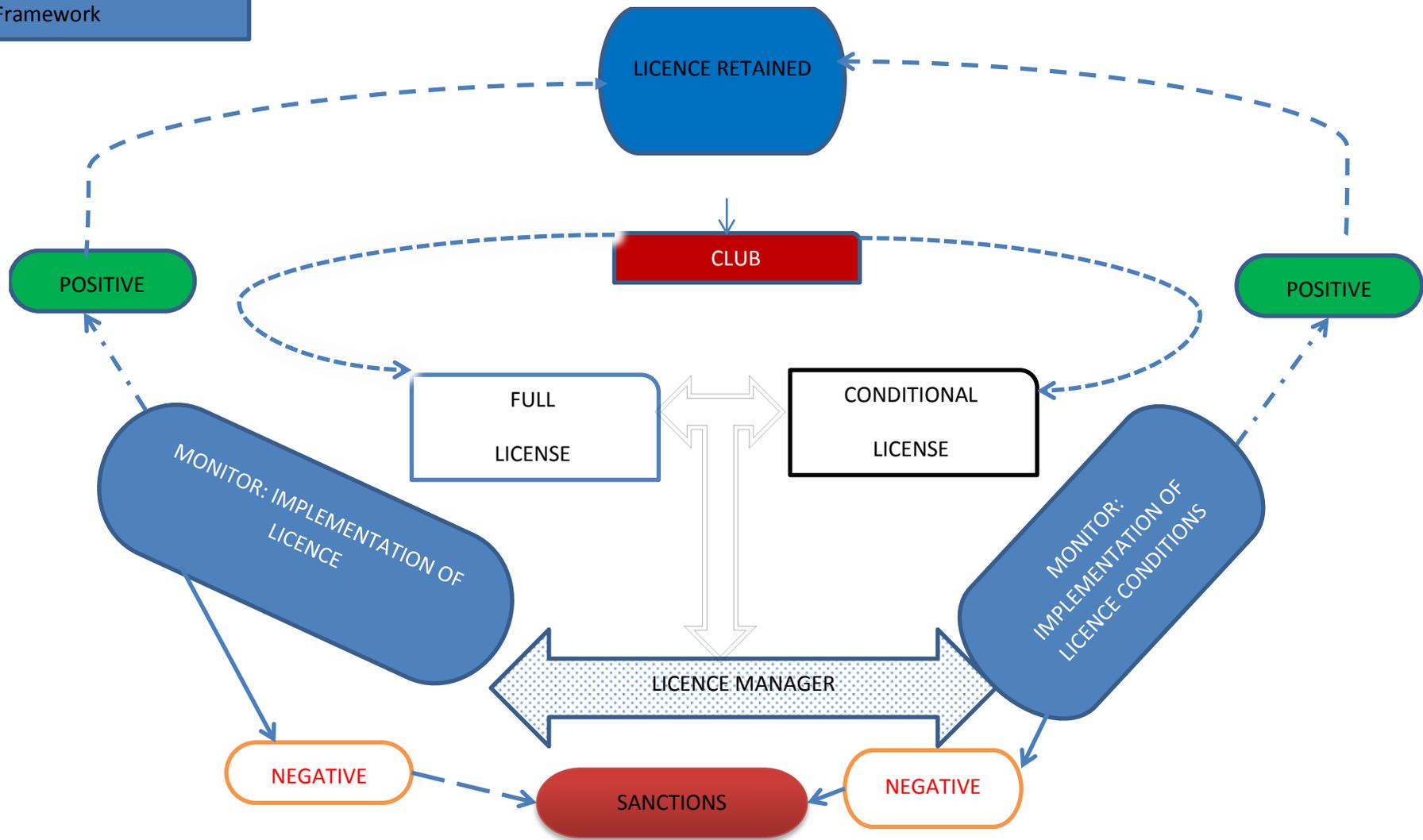
The licensing and monitoring process, which includes a review of the financial management systems of clubs, would result in recommendations made by the FFC Board in respect of the proper financial planning, control and management of clubs. The interactions between the FFC and the clubs would ensure that

clubs benefit from the suggestions made by members of the Board in a process of learning-by- association, as well as direct training. The repeat interactions between members of the Board and the clubs allows for escalation up and down the enforcement pyramid (Ayres and Braithwaite, 1992), utilising in this case, mostly positive incentives to achieve regulatory compliance.

Regulation may become irrelevant if the intended targets cannot appreciate what the regulation requires them to do and how to do it. In as much as the clubs would strive to appoint suitably qualified people to be responsible for the financial management of their clubs, in response to club licensing, it is important for the regulatory system to be seen to be improving the quality of the personnel responsible for the clubs' finances. The FFC framework envisages training in financial planning, budgeting, financial analysis and issues of taxation in a program of continual education for club officials.

The quality of the Board's composition means that they are in a position to advocate for rule changes within and without the football industry for the benefit of the game. The Board could, for instance, suggest changes to the revenue distribution formula to ensure improved financial and sporting performance for majority of the clubs, and as such the level of competition in the league. The proposal is for the Board to also serve as an advocacy group on behalf of the clubs to lobby government to, not only to provide tax exemptions to operators in the football industry, but to also provide direct financial support for club football. The Board is in a position to analyse the effect of various government policies on the football industry based on the volume of information they have and the quality of their personnel, and make recommendations to government.

FIG. 6.3: License Implementation Monitoring Framework



It could be argued that due to the independence from the Football Association and the clubs, Government is more likely to see the Board as being more objective in their argument for favourable policy changes, and may take them more seriously in their advocacy effort.

#### **6.5.4 Monitoring Financial Activities of Clubs**

Figure 6.3 provides a description of the monitoring framework. This study proposes that the FFCB be responsible for the monitoring of the financial management systems of the clubs and the implementation of the financial license conditions. The FFCB would engage the clubs in a continual process of documentation review over an agreed period during the licence year to ensure that licence conditions are being respected by clubs. The authenticity of clubs audited accounts could also be verified by spot checks done by officers of the FFCB. It is the increased interactions between the regulator and the regulatee that provides the best conditions for the movement up and down an enforcement pyramid using both positive and negative incentives (Ayre and Braithwaite, 1992; Gunningham, 2010; Oliver, 1980). Clubs are obliged by the proposed regulations to open up, on request, to recognised officers of the FFCB. Failure to do so attract sanctions which may be pecuniary, and this would also be taken into account when the club applies for a license the following year.

The License Manager (LM) would monitor the implementation of license agreement to ensure that licensees comply with the terms throughout the license year. The LM would monitor the implementation or compliance with the

conditions upon which a conditional license was issued by either the FIB (in respect of Other Criteria) or the AB (in respect of both Financial Criteria and Other Criteria). Where a licensee is found to be in breach of any of the terms of the license agreement a sanction that could include fines or transfer bans for the next season, could be imposed on the club effective the current period or the next licensing period. Licence withdrawal during the monitoring period resulting in clubs being thrown out of a league should not be encouraged as it would affect the sporting integrity of a league that has already commenced.

## **6.6 CONCLUSIONS**

The chapter discussed the FFC framework at the conceptual level by first discussing the key concepts of clearing-houses that are relevant to the study. These include the reduction in the risk of doing business with rival firms through the building of trust amongst member firms. This is achieved through information dissemination which helps to also reduce the cost and time involved in trading amongst rivals. The chapter also utilises the conclusions drawn from the previous chapters to develop the key aspects of the determinants of the scope, the function and the form of the proposed FFC framework.

The key proposals include: providing incentives and support services for clubs to ensure compliance with financial licensing and monitoring requirements; guaranteeing the independence of the financial regulator through the quality of membership; introducing a more efficient player transfer payment system; providing advocacy and capacity training services for clubs; and setting up a fund to support their youth and infrastructure development activities.

The framework which has been developed at the conceptual level is now interrogated with the help of semi-structured, face-to-face interview sessions conducted with stakeholders of professional football in Ghana. Their responses are analysed in chapter 7 and the conclusions drawn are utilised to modify this conceptual framework into a fully-fledged model of financial regulatory framework for professional football in Ghana which is reported in chapter 8.

## CHAPTER VII

# THE FFC FRAMEWORK AND FINANCIAL REGULATION IN GHANA FOOTBALL

### 7.1 INTRODUCTION

The objective of this chapter is to evaluate the existing framework for regulating the finances of Ghanaian professional clubs through the perspective of Ghanaian football's key stakeholders. The focus is also to analyse the views of the stakeholders of Ghanaian professional football on the four main components of the FFC framework to assess its applicability in Ghanaian football. Interviews were held with 16 Premier league officials, the FA President, the Chairman of the League Board and executives of GHALCA. The first section of the chapter discusses the need for financial regulation of football from the perspective of the research participants. The second section deals with the role of the FFC in financial disclosure and licensing in Ghanaian football, including the quality of the existing regulatory framework.

The third and fourth sections discuss the stakeholders' views on the incentives built into the FFC framework to ensure compliance with financial licensing requirements. The final part deals with stakeholders general impressions about the FFC framework's applicability in Ghanaian professional football, and the expected implementation challenges to be dealt with. These discussions further

serve to provide an overview of the institutional environment and industry conditions within which the modified FFC framework is developed in Chapter 8.

## **7.2 RATIONALE FOR REGULATION**

The interviewees had no doubts about the need for financial regulation even if they offered differing rationales for regulating clubs. All club officials interviewed answered 'yes' when asked whether they believed it was necessary for professional clubs to be financially regulated, but with differing degrees of emphasis. 11 out of 16 club officials believed that the main rationale for the financial regulation of professional football clubs was to ensure their financial stability in consonance with the position taken by both FIFA and UEFA (Geey, 2011).

According to some of the club interviewees, clubs must remain financially stable to ensure that the financial interests of players, technical staff and other stakeholders are not jeopardised, whether through bankruptcy or an inability to meet their financial commitments. Such outcomes might generate negative externalities for other clubs, and debtors external to the operations of the clubs:

‘---Somebody thinks that the money is his so he can do anything at all he likes with it. It is not so. You do anything at all you wish to do with it at the expense of something else and other people and it is not good. In this world we are inter-related---‘

[WAS]

Some clubs also argued that employee and consumer protection are key reasons why the financial stability of a club should be ensured through regulation:

‘---There is also the possibility that there would be inter-club or clubs and players kind of relationship. [This] may also create debtor-creditor issues which need to be addressed--- it may, by implication extend to the way that the finances of these clubs are managed--- ‘

[KTK]

The FA and the League believed that regulation is important for the marketing of the league to the general public, and more importantly to “Corporate Ghana”:

‘---Regulations relating to the financial well-being of clubs are very, very necessary... to build public confidence so the public can rest assured that they are dealing with credible people---‘

[FAP]

The evidence from this study suggests support amongst stakeholders of Ghanaian football for a public interest rationale for regulation (Becker, 1983; Breyer, 1982; Feintuck, 2010; Stigler, 1971), especially in situations where Government agrees to financially support clubs. According to some clubs proper financial regulation would ensure that the FA and government would both be confident enough to provide short term financial support for clubs for

youth and infrastructure development, and also for clubs requiring funding for participation in CAF Inter-club competitions. One respondent explained that:

‘---If the FA regulates the financial activities of the clubs then they would be able to guarantee that if [it is giving] money for you to go to Africa, you are not going to misuse the money because at least [the Government] will have access in trying to control how the money is used---‘

[AD]

This seems to suggest that demand for regulation by the clubs is also based on their expectation of achieving some benefits from the regulatory process (Brunnermeier, 2009). This would then suggest a shift towards positive incentives to encourage regulatory compliance (Hilbe and Sigmund, 2010).

The evidence from the interviews overall suggests that the main rationales for financial regulation are: 1) to ensure that clubs are financially stable and could operate as going concerns; and 2) to protect the sporting integrity of the league, mirroring the conclusions of Lammert *et al.* (2012), Llewellyn (1999) and Brunnermeier, (2009). Lammert *et al* (2012), for instance, argue that the need to protect the sporting integrity of a league contest through financial regulation may lie in the public good characteristics associated with the integrity of the league. This is because once there is a high level of integrity associated with the league no member could be prevented from benefitting from it. Also, all clubs in the league risk being tarnished if the behaviour of one club damages the integrity of the league.

The clubs argued, however, that in the absence of regulation from the FA and the PLB, not all clubs would be adequately motivated to invest in ensuring the production of this public good, i.e. the integrity of the league. This is because a sporting contest characterized by relegation from, and promotion to, a higher and more financially-lucrative league, naturally generates a 'rat race' (Akerloff, 1970; Franck, 1995). Clubs attempt to outspend each other to acquire the best talents to ensure they win or maintain their league status, thus endangering the financial stability of clubs and by extension the integrity of the league as a whole (Lammert et al, 2011).

Secondly, a high level of integrity of a league achieved through regulation motivates the Football Association to provide guarantees to clubs in their bid to raise private capital from the financial markets. Due to the inability of individual clubs to provide acceptable collateral to financial institutions for credit (see section 5.5.1), guarantees from the FA allows clubs to have easier access to funding; a critical ingredient for the financial stability and ultimate survival of clubs. The financial institutions also benefit in the sense that it reduces the cost of transacting business with the clubs, by reducing the risk of default by the borrowing firms (Allen, 1988).

The evidence presented in this study suggests that the stakeholders of Ghanaian football appreciate the need for regulation of the financial activities of clubs, and that they would be receptive to the introduction of a financial regulatory framework that improves on the efficiency of existing systems.

## **7.3 FINANCIAL DISCLOSURE AND LICENSING**

This section deals with the quality of the existing financial regulations in Ghanaian professional football in terms of adequacy and enforcement, and the expected role of the FFC framework in improving its efficiency.

### **7.3.1 Quality of Existing Regulation**

The quality of the regulation relates to the adequacy of the existing regulations in the GFA's Rules and Regulations (GFA, 2010a) and Statutes (GFA, 2010b), discussed in chapter 1. It also relates to the ability of the regulator to enforce the relevant legislation within the existing framework.

#### Adequacy of Existing Regulation

Despite the existence of the regulations discussed in Chapter One, 14 out of the 16 clubs suggested that there is inadequate financial regulation in Ghana football with one club suggesting that:

“---The current FA regulation is even vague. There is nothing like financial regulations---There is nothing like that---As compared to the Premier League in UK. No! I don't even think there is something like that---“

[LIB]

This is a view shared by both the GHALCA (interview with GHALCA), which described the regulations as inadequate, and also by the League:

“---What I want to stress ... is that the financial regulations as far as our football in Ghana is concerned, [are] nothing to write home about.”

[PLB]

The interviews suggest that Article 8(2) is the only one that comes readily to mind when clubs are asked about their knowledge of the financial regulatory laws in Ghana, due to the fact that the stated punishment for failing to submit financial statements under this Article is a sufficient deterrent to ensure compliance.

The suggestion that there is inadequate regulation in the face of evidence discussed in section 1.2.3 suggests an apparent lack of proper communication of the various other pieces of legislation by the FA.

### Regulatory Enforcement

The FA Board, on the other hand believed that there are adequate regulations to ensure the proper financial management of the clubs. Asked whether Article 8 (2) and 40 (1) were adequate to ensure that clubs are financially regulated, the President of the FA suggested that:

“---To be honest with you that alone would have been adequate except that the Football Association doesn't do anything with the information the clubs provide---“

The FA argued that the Premier League Board, which is responsible for organising the professional league in Ghana, is rather ineffective in its

implementation of the existing regulation. The issue, according to the FA and also to some clubs, is concerned with a lack of implementation rather than the quantity of legislation available. This view is also shared by GHALCA:

“---You can set standards --- [but] you just have to implement it. It is the implementation --- there could be rules, --- but then people will flout it---“

[GHALCA, 2]

The ultimate responsibility for the implementation of football policy rests with the FA Board. The apparent shifting of responsibilities between the FA Board and the Premier League Board (PLB) in respect of which body is responsible for financial regulation apparently signals the possible presence of conflict in the governance structure of Ghanaian football. Whilst a certain level of conflict is needed within the organization to ensure that it does not stagnate (Byers et al., 2012), too much conflict and disagreement on policy implementation approach and effectiveness could prevent the FA's progression towards achieving organizational goals. Whilst in principle one could argue that the existing regulatory system is clearly defined, the apparent conflict between the FA and the PLB discussed above gives an indication that it might not necessarily be so in practice.

The FA might also be failing to appreciate the inadequacies inherent in the regulations. While the PLB might be responsible for implementing the regulations, the structure of the PLB is such that the majority of its members come from clubs in the league, and as such, the clubs might seek to unduly influence the behaviour of the regulator. Hence, lack of enforcement might be a

sign of regulatory capture, in which case the regulator is not motivated to implement existing regulations (Becker, 1983; Tullock, 1967)

Lammert et al. (2011) argues for enhanced regulatory intervention in a sports league in situations where there are higher degrees of collective revenues resulting from marketing of rights, league sponsorship and ticketing. In the Ghanaian Premier League, all media rights and league title sponsorship are centrally marketed by the FA on behalf of the clubs (see section 5.5.2). The revenue from match tickets is to a very large extent centrally distributed (section 5.3.1.3). However, the lack of emphasis from the FA on regulatory enforcement to ensure stability of the league suggests there is little evident support for the position of Lammert et al. (2011) in terms of Ghanaian football.

### **7.3.2 Submission of Financial Statements**

The FA's stated rationale for asking clubs to submit their accounts is to ensure that they satisfy the conditions of incorporation, as defined by the Companies Code:

'---The official Liquidations Act for instance--- requires companies to be liquid and if you are unable to pay your debts you are supposed to wind up. The Companies Code also requires you to present accounts every year to the Registrar General in order to determine your financial viability or sustainability---Those laws in the Companies

Code--- they apply automatically to any company incorporated under the Companies Code---

[FAP]

The request for the clubs to submit accounts could be situated in the stewardship role played by accounting information, serving as a link between the owners/other stakeholders and the managers of the firm, in terms of its financial management (Gray et al, 1995; Sarpong, 1999). Sarpong and Gray (1989) argue that accounting information is the basis for the resolution of conflicts between a firm and its stakeholders, such as the owners and society in general (Freeman, et al., 2010) in respect of the firms' finances. However, in the absence of regulation to mandate firms to provide financial information, evidence suggests that firms are reluctant to disclose information useful to users (Nicholls and Ahmed, 1995; Sarpong, 1999). Morrow (2013) provides a list of users of club accounts to include: investors; lenders; employees; supporters; and Governing bodies, and suggests that each has a different use for club accounts.

Some club interviewees believed that it is the FA's financial support for the clubs through league rights revenue that gives the FA the right to request clubs to submit audited accounts. This perception might have arisen from the fact that the introduction of Article 8(2) into the FA regulations coincided with the start of the distribution of league rights revenue to clubs in Ghana:

“--- if the clubs had not been given monies by the GFA there was no way they could have regulated their accounts. But this time the FA has been able to help them

with some sort of sponsorship so they want to know at least how this sponsorship that is given to them is used---“

[ARS]

Others also believed that the request for the submission of accounts is premised on a desire to show the corporate world that clubs are being run well, in order to attract further investment to the league, and to the clubs:

“---since we want to get to professionalism where we expect corporate bodies to come and sponsor [us], those bodies would want to make sure that when they bring the sponsorship you'll account for them or you would use them religiously---“

[ADU]

Some clubs argued that the process of submitting financial statements as part of the regulatory requirements also allowed them to review their own financial performance and helped them with financial planning. Some clubs, however, thought that too much emphasis has been placed on the submission of the audited accounts without sufficient reference to the rationale for the submission request:

“---Honestly speaking--- it is about just submitting and to follow the procedure that you are required to go through. For all these years that's what we've been doing---“

[EDU]

Some clubs believed that the submission of the accounts is primarily cosmetic: clubs submit the accounts in order to be seen to be meeting the requirements for the award of license to play in the league. Hence, clubs are motivated by the desire to achieve legitimacy (Morrow, 2006); rather than meeting the objective of financial regulation, an opinion which is confirmed by League officials.

It must be noted that the requirement to submit audited financial statements is reserved only for clubs in the Premier League, and does not extend to clubs in the lower divisions. This might be an acknowledgement on the part of the FA of the fact that most clubs in the lower divisions are not incorporated firms and thus, are not required by law to publish audited accounts. This might also be an attempt to engage in risk-based regulation (Black, 2005); as the FA might be considering the finance of the lower clubs to pose less risk to the stability of league football than their Premier league counterparts. Thus the requirements around financial disclosure are new to promoted clubs. Asked whether they previously had their accounts audited during their campaign in the Division One League one of the newly promoted clubs said:

“--- No, no, no... we were not [writing up accounts]... we are [doing it] now... It was a ‘buga buga’ [unorganized] something... this time around the club wants to put everything right... maybe somebody would also want to invest---“

(AP)

The evidence suggests that too much emphasis has been placed on the requirement for clubs to submit audited financial statements without focusing on

the effect of improved financial disclosure on the financial performance of clubs. In such a situation the financial statements no longer play their stewardship roles (Sarpong and Gray, 1988). There may also be a need over time to extend financial disclosure requirements to clubs in the lower divisions, albeit at a less rigorous level, in preparation for meeting financial licensing requirements in the top league.

Not only are some clubs not submitting the accounts to the FA but they also do not submit copies of their audited accounts to the Registrar Generals' office as part of the requirements for incorporated firms as stipulated in the Companies Code. A club official, who is also a member of the Executive Committee of the FA (interview with ASH), intimated that he was aware that several clubs failed to even meet their tax and social security obligations to the Ghana Revenue Authority and the Social Security and National Insurance Trust (SSNIT) respectively, with few consequences. This evidence suggests challenges with the effectiveness of these complementary control institutions, which limits the ability of the financial regulator in football to effectively implement a more focused set of regulation, rather than a very comprehensive and resource-consuming one (Sappington, 1994).

### **7.3.3 Review of Financial Statements**

The general opinion of the clubs was that beyond submitting the audited accounts to the FA through the League, little else happens: the submitted financial statements are not reviewed; hence findings are not discussed with the clubs; hence there are no recommendations to be implemented by clubs.

This is a point recognised by the FA President, who also owns one of the clubs in the Premier League:

“--- (We at) [names club] ... we just submitted our accounts today and we need to do that before the start of the season. But whether the PLB ... analyse the information is another thing---“

[FAP]

According to some interviewees, a review of the audited financial statements of the clubs is crucial to the proper functioning of any financial regulatory framework as otherwise the regulator would not know whether the club is doing the right thing or not:

“---We have to check the financials submitted by the clubs. Based on the financials, if we see that --- everything is perfect with the cash flows but the club is still struggling then you know that maybe you are not getting the right figures---“

[CHE]

The clubs' conclusion that there is no review of the submitted accounts is based on the fact that they have either never had any feedback from the FA on their submitted accounts, and/or that they have not heard of the FA punishing any club for submitting a supposedly falsified account, as suggested in the interview with KTK. Ghanaian clubs might thus be behaving as 'amoral characters', firms who do not conform unless they believe non-compliance

would be detected and punished (Kagan and Scholz, 1984). Apparently a process that involves clubs having to defend the contents of their audited statement may serve as a warning to the clubs, in the form of general deterrence (Simpson, 2002), that their financials are being reviewed, and hence serve as a motivation for regulatory compliance:

“---That’s what the law asked them to do [only submit audited accounts]. The law did not ask them to come and provide further explanations with their auditors---“

[BA]

The lack of review of the submitted accounts by the League and the FA confirms the conclusions of section 6.2, leading to clubs admitting to embellishing the financial statements they submit to the FA without expectation of their being reviewed (interview with ARS). There is, however, a general consensus amongst the clubs that as currently structured the PLB does not have the competence to undertake such a review:

“---the financial statements are always embellished and you ask yourself if you even furnish the FA with your financial statements---let us all face facts--- do we have the requisite personnel to peruse these documents and ensure that clubs are adhering to [the disclosure requirements]---?“

[TY]

According to the clubs there is also a lack of capacity within the FA to: ensure the efficient running of a player transfer payment system; ensure that league rights monies are paid to clubs on time (interview with ARS); ensure that financial regulations are implemented and monitored (interview with RTU); and provide capacity building support to clubs (interview with LIB).

In an attempt to deal with its inability to review the submitted documents the PLB effectively sub-contract the financial review to the Auditor General's Department (interview with HOO1). This would suggest an admission on its part of a lack of capacity within the organisation to conduct such financial reviews.

The FA also acknowledged that the resources available to the League - human, financial and physical - may not be adequate, and this may explain their inability to review the submitted documents:

“---I think we all took things for granted that maybe the PLB was well resourced to do the work [ensure financial regulation of clubs] and they would do it but I think they need guidance and we also need to resource them---“

[FAP]

Some of the clubs, however, argued that the lack of capacity of the League Board to function effectively is largely a function of the FA's desire to appoint people on the grounds of political patronage, rather than on competence and proven efficiency, confirming the assertions of Fridy and Brobbey (2009). The issue of political patronage in Ghanaian football is well documented in Bediako (2012) and in Broere and Van Der Drift (1997). As one official suggests:

“---It all depends on the Executive Committee because ultimately they would appoint people--- so you don’t appoint your cronies. You select people you know have the wherewithal [the knowledge and professional competence] ---“

[RTU]

Other interviewees believed that the situation is a function of the institutional environment within which the PLB operates in relation to the FA:

”--- The PLB must be semi-autonomous, and the PLB must be the one to enforce [the regulations] ... to review such financial reports just like the UEFA are doing--- to ensure that everything that people bring [as financial statements] are genuine ---“

[FAI]

Rather than it being a case of not appointing competent people, it was also suggested that, the FA finds it difficult to attract the right calibre of personnel based on its remuneration structure (interview with KTK). This is consistent with the argument put forward by Bayle and Robinson (2007) that an inappropriate incentive mechanism could serve as an inhibiting factor in the operational performance mix of a national governing body (NGB):

“---If the FA itself hasn’t got the capacity it has to rely on outsiders to do that. And the way I see the FA work--- a lot of it being done on voluntary basis --- it is possible that

you won't get professionals who would be willing to provide that kind of expertise---“

[KTK]

The lack of suitably qualified individuals within the FA poses serious challenges to the efficient implementation of any financial regulatory framework in Ghana, as human capacity and competence are crucial ingredients in the proper functioning of any regulatory framework (Baldwin and Black, 2008; Sappington, 1994).

It is essential that such a review be undertaken, and by individuals with the right expertise and professional competence (see Sections 5.2). This is consistent with what is envisaged in other football regulatory systems notably the UEFA FFP regulations and the SFA CLR's (see Section 3.4). This explains why reviewing the financial statement is a key component of the FFC framework.

#### **7.3.4 Accounting and Auditing Standards**

The auditor's opinions in the financial statements submitted by the clubs to the FA indicate that the accounts of the clubs are audited according to GNAS standards (see section 5.2.3). Yet, at the same time, interviewees were of the opinion that the veracity of information in the audited financial statements submitted by some clubs cannot be guaranteed (see sections 5.2 and 7.3.3). For example:

“---Even though clubs are enjoined to submit audited accounts the question is how true or how correct are these accounts presented? ---“

[ADU]

Ostensibly, the lack of review of financial statements (see section 7.3.3) has led to several instances of false accounting, improper auditing and the manipulation of financial figures by clubs. Indeed some clubs, behaving as what Kagan and Scholz (1984) referred to as ‘amoral characters’, admitted doing so because they knew that they would never be found out (interview with EDU)

“---If I tell you that the financial statements that we furnish the FA are decorated, I know what I am talking about. Some clubs even submit the same financial statement--- Club A would submit financial statement, Club B would submit [and] the figures are the same but yet the clubs are different---“

[TY]

By reviewing the audited financial statements of the clubs for the year ending 31<sup>st</sup> December 2010, it was evident that the respondent (TY) was referring to his own club and to club BC. It is clear that TY merely picked the soft copy of the financial statements of BC, changed the title to the name of TY’s club and then even signed on behalf of the auditor.

There are also clubs which submit identical accounts year after year, simply changing the cover, something which was discovered by the FA President

when he decided to sample some of the audited accounts and also confirmed by another interviewee (interview with FAP):

“---I know some clubs are doing the right thing... others are not doing it... we are in the same business so we know of clubs who will only take last year’s accounts, just alter the date, alter some few figures and present it---“

[ASH]

These assertions by the clubs confirm the conclusions made in section 5.2.2, that the content of some of the audited financial statements may not be credible, giving credence to the assertions by Nicholls and Ahmed (1995) that in the absence of adequate regulation and monitoring, firms are reluctant to disclose information required by their stakeholders.

Given the evidence presented here, what is most surprising is that auditors of the clubs invariably indicate that the information supplied in the financial statements give a true and fair view of the financial position of the clubs. Hence the admissions by the clubs bring into question the professional credibility of the auditing firms that certify these accounts. As such the interviewees suggest that a review of the financial statements by an independent financial regulatory body, would determine which auditing firms’ opinion could be trusted. The FFC Board would serve as a ‘meta-regulator’ which would ‘audit the auditing processes of the clubs’ (Parker, 2002):

“--- maybe it would get to a point [where] we have to recommend some specific firms that we are comfortable

with so that figures cannot be cooked --- in terms of the auditing--- [we only license auditing] firms we can trust that they would not condone any malfeasance [by clubs]---

“

[BC]

The evidence here suggests the possible existence of collusion between the auditor, who in this instance serves as an agent of the club's stakeholders (including the FA as the regulator), and the club's management (the regulatee). They would be considered to be involved in active regulatory capture, i.e. hiding relevant information from stakeholders (Tirole, 1991, 1993). Such a situation would be solved by the introduction of active monitoring of the process of reporting and auditing the club's audited financial statements which would have to conform to some football-specific requirements for the purposes of comparability. However, at present the Ghana FA has no specific reporting formats for clubs, as noted by one interviewee:

“---There is one thing asking clubs to submit accounts. What kind of accounts? ---I think the first step should be developing the real benchmarks for financial reporting. Once that is developed, whoever is coming to assess whatever is submitted would then have a benchmark against which to evaluate whatever has been received---“

[KTK]

In the absence of financial reporting benchmarks set out as mandatory reporting requirements, Brunnermeier et al (2009) argues that clubs would not supply the requisite amount of information. In a situation where clubs fail to

meet mandatory reporting benchmarks the range of instruments available to any regulator would include sanctions (Ayres and Braithwaite, 1992; Oliver, 1980; Sappington, 1994; Simpson, 2002), amongst a wide range of other positive and negative incentives (Oliver, 1980). This is a point that finds support amongst the interviewees:

“---They should be sanctioned... maybe I don't want to talk about point deduction... [but] the sanction should be punitive enough to get people to respect it---“

[ASH]

According to several interviewees, a combination of sanctions and continual monitoring, would lead to improvements in the credibility of the financial disclosure process:

“---When we do that [review of financial statements] continuous for about two, three years --- in fact the system would stabilise and you would be sure [to know] that this auditor is credible, this one is reliable or [not]---“

[ADU]

The evidence in this section suggests that the accounts that some clubs submit to the FA do not reflect the true financial situation in the clubs, also bringing into question the credibility of the auditing firms that certify these accounts (see section 5.2). An effective financial regulatory framework would thus have to set the right financial disclosure benchmarks and sanction clubs that fail to conform to set reporting benchmarks. Auditing firms found to be condoning fraud in

financial disclosure could also be reported to the ICAG which retains the power to sanction their members.

### **7.3.5 The FFC Framework and Financial Disclosure**

The FFC framework proposes to introduce a system of financial licensing along the lines required by FIFA, and being implemented for instance by UEFA, which is considered critical to improving the financial management of clubs. The club licensing component of the FFC framework is expected to improve overall governance in football according to some clubs. For example:

“If you have a body which is watching you--- your financial operations it would keep you on track. It would keep you in check---“

[WAA]

Table 7.1 gives an overview of the responses to six questions provided by the club representatives who were initially interviewed during the face-to-face semi-structured interview process. This was part of the transcript validation process. Nine out of the 17 interviewees represented clubs which were more than 10 years old, with the remaining eight clubs being 10 years old or less. Ten of the 17 club representatives had a university degree or higher qualification. Of these 13 had less than ten years as an administrator with a premier division club. Only four interviewees had been an administrator of a premier division club for more than ten years.

Asked whether they believed that club licensing would improve financial regulation of clubs, only five out of the 17 were neutral, with the remaining

twelve agreeing to the proposition. All 17 clubs admitted that there are challenges to the financial management practices of their clubs.

<b>Question</b>	<b>Age of Club</b>		<b>Level of Education</b>		<b>Type of Respondent</b>		<b>Experience of Respondent</b>	
	>10 years	≤10 years	Non-Graduate	Graduate	Club	Regulator	>10 years	≤10 years
Existing Regulations Adequate								
<b>Strongly Disagree</b>	6	2	2	6	8	2	2	5
<b>Disagree</b>	2	6	4	4	8		2	7
<b>Neutral</b>	1		1		1	1		1
Clubs Financially Well-Managed								
<b>Strongly Disagree</b>	6	4	3	7	10	3	2	8
<b>Disagree</b>	3	4	4	3	7		2	5
Club Licensing will improve Regulation								
<b>Neutral</b>	2	3	1	4	5		2	3
<b>Agree</b>	6	3	3	6	9	1	1	8
<b>Strongly Agree</b>	1	2	3		3	2	1	2
FFC will improve Financial Mgmt.								
<b>Agree</b>	2	2		4	4		1	3
<b>Strongly Agree</b>	7	6	7	6	13	3	3	10
FFC will improve Financial Governance								
<b>Agree</b>	1	1	1	1	2	1	1	1
<b>Strongly Agree</b>	8	7	6	9	15	2	3	12
FFC will improve Accountability								
<b>Agree</b>	3	3	2	4	6		2	4
<b>Strongly Agree</b>	6	5	5	6	11	3	2	9
<b>Total</b>	<b>9</b>	<b>8</b>	<b>7</b>	<b>10</b>	<b>17</b>	<b>3</b>	<b>4</b>	<b>13</b>
<b>Only a response type that had at least one person providing it as an answer to a question are shown. Full range of options were: a) strongly agreed; b) agreed; c) were neutral; d) disagreed; or e) strongly disagreed</b>								

Thus with 18 out of the 20 respondents suggesting that the existing regulation is inadequate to provide proper financial governance to clubs, it is not difficult to see why the FFC framework received such high approval rating. All the respondents admitted that the introduction of the FFC framework would improve accountability within the clubs (see Table 7.1). In addition, the respondents representing the three regulators i.e. the FA, the PLB and GHALCA all strongly believed that the implementation of the FFC framework would bode well for accountability within clubs.

However, the interviewees in the face-to-face sessions believed that the success of the financial licensing body would be dependent on the quality of personnel serving on the board, as this would be vital in reducing the probability of regulatory capture (Becker, 1983). According to one interviewee who is also a member of the Premier League Board, a quite different committee is required for the review of the financial statements, one that requires having its positions filled with professionals (interview with ADU).

The evidence here suggests that providing a regulatory framework that incorporates a process of financial licensing and implementation monitoring, and which places specific requirements on clubs and the regulator in terms of financial disclosure, would certainly enhance the quality of financial reporting. Such a framework would provide stakeholders with the tools to make informed decisions (Barrow, 2011) in their relations with the clubs and the league.

### **7.3.6 Summary**

There is a general acceptance by the clubs, the FA and the League that the financial statements submitted by the clubs to the FA in conformity with Article 8(2) are not subjected to review. This gives the clubs very little motivation to ensure that the contents of the submitted documents are credible. According to the clubs, this arises due to a lack of capacity within the FA, something which would require external expertise if there is to be an improvement. It is further argued that the inability, or apparent unwillingness, of the FA to appoint people with the requisite skills and competences to run the League generates inefficiencies in policy implementation by the PLB. This in turn creates challenges for the FA, which is perceived as being ineffective in achieving its organizational goals.

The discussions also show there is a general appetite amongst the FA and its stakeholders for the introduction of financial licensing as part of an FFC framework in which the regulator reviews the financial statements of clubs on an annual basis. The review is done to ensure that clubs conform to set information disclosure standards, and that they do not have any overdue payments to other clubs, the FA, tax and social security authorities and employees, including players. The review could also lead to an assessment of the financial viability of the football clubs in the league, hence allowing the regulator to provide the necessary advisory services to the clubs concerned.

## **7.4 REGULATED ACCESS TO FUNDING**

A key objective of the FFC framework is to ensure the easing of financial constraints within the environment in which Ghanaian clubs operate. This section discusses the views of the clubs on the provision of regulated access to credit for clubs, suggested in the FFC framework, as a mechanism to achieve compliance with financial licensing requirements.

### **7.4.1 Funding from Financial Institutions and Government**

This section discusses the challenges faced by Ghanaian clubs in accessing credit from financial institutions, and the role envisaged to be played by the FFC in easing the financial constraints faced by clubs.

#### Access to and Cost of Credit

Ghanaian clubs face key challenges in accessing funding for their activities (see section 6.5). According to clubs, the critical period during which clubs are actively seeking support from financial institutions is the three-month period between the end of one league season (end of June) and the beginning of the next season (early September). According to one interviewee:

“---Before the league starts you are supposed to pay your players but they would not be earning any income for you. You are supposed to recruit new players and where is the money? So if you get a bank that in the lean season

would be able to help you at least with soft terms it would help---“

[ARS]

The two main types of financial institutions utilised by clubs as sources of funding are banks and discounts houses. The clubs complained about the difficulty they face in utilising discount houses such as NDK Financial Services as a source of short term finance due to peculiarities of income flow for Ghanaian clubs (interviews with HOL and ARS) (see section 5.5). According to the clubs, the finance houses would readily provide the credit facility as long as the club obtained a guarantee from the FA that the club's share of the league rights income would be used directly to pay off the loan. The FA president explained that:

“---The NDK is a non-bank financial institution set up to provide short-term funding to some kinds of business. [Ghanaian] football is not the type of business that you can use short-term funds to finance [because of challenges with flow of income]. So you go there and the interest is charged on a monthly basis. Maybe eight percent per month times ten months is maybe 80%. By the time you get your sponsorship money you are unable to pay your debt. The interest is too much---“

This is emphasised by another interviewee who explained the choice they have to make and the collateral utilised:

“---We have seen that most of the clubs have gone to NDK and it has not helped them. It has even been a drain-- we [my club] borrow at the commercial rate, with the banks. We don't use the finance houses and others because it is too expensive --- We have used the banks when we do a receivable bank transaction with the bank [using the GLO sponsorship income]...then we assign those receivables to the banks “

[FAI]

In such a process, the FA provides the banks with a guarantee that the club's share of league rights income would be paid directly to the bank to defray the loan. This is because most clubs lack the assets and a reliable revenue stream (see section 5.5) to be utilised as collateral to access commercial credit.

“---The main sponsor [of the league] is not prompt with the payment [of rights fees]. So [a loan from financial institutions] is one of the main avenues that we can use to mitigate the delays in payment---“

[FAI]

The clubs insisted that the FA should not withdraw its guarantee for clubs. They argued that the financial difficulties they faced were as a result of the FA's own inadequacies. The FA indicated its recognition of the challenges and had begun the process of formally convincing a group of financial institutions to provide funding to clubs at lower than market interest rates (interview with

FAP). The FA would guarantee the payments to the clubs by the banks using the expected league rights revenues:

“---If it materializes the maximum interest [to be charged by the bank] is 29% per annum. And it would be a better way than going to NDK --- and the other thing is that I explained to the bank that they should not expect immediate repayment. We receive two tranches --- payments are broken into two for a year. ---Sometimes it can go beyond that. So they should structure a facility that would require payment in one year---“

[FAP]

This would suggest that even the negotiated interest rate was six percentage points higher than the 91-day treasury-bill rate as at September, 2012 when the interviews were conducted (see Figure 1.2), confirming the high cost of credit in Ghana. Most clubs also argued that where clubs are in financial difficulties, such that failure to raise short-term finance would lead to their collapse during the course of a league season, they should be supported by the FA and GHALCA, provided there is a source of repayment (interview with FAI). This, they argue would give true meaning to the attempt to ensure the stability and integrity of the league (Lammert et al, 2012); the basis of any financial regulatory framework for football (FIFA, 2010; UEFA, 2012a; SFA, 2013).

The clubs also argued that other challenges to the financial health of the clubs include: the declining attendances that have resulted from the drop in quality of competitions as the best players migrate abroad (Darby, 2010); the lack of

proper marketing of the league by the FA and the PLB (interview with FAI, KTK, ASH); and the emergence of televised English Premier League and the Spanish La Liga games as rivals for the fans' attention (interview with HOO, GHALCA, HOL).

#### The FFC and Access to Commercial Credit

The FFC framework seeks to utilise the removal of some of the barriers to clubs accessing credit as one of the incentives for clubs to comply with the financial licensing requirements. The provision of incentives is known to encourage managers, for instance, to disclose adequate information about their companies (Narayanaswamy, 1996; Sarpong, 1999); a key objective of the framework. Thus, the clubs argued, the implementation of the FFC Model would foster industry development and investment by helping clubs access credit, and would be the best thing that has happened to Ghanaian football:

“---The finances of a club happen to be the heartbeat of the club. You have not just introduced monitoring but you also want to make sure that [the FFC Board] gives advice and makes sure that they even create avenues for people [clubs] to get the resources---“

[MED]

“---Yes, somebody is guaranteeing for you to go and take money from somewhere and that same person is saying that when you take the money I want to make sure that

you use the money for the right thing--- so I think it [ financial licensing] is in order---“

[ADU]

“---if they start getting benefits like the [FFC] body helping you to source funds; the body trying to tell you that when you do things this way these are the benefits that you would get, they would try to make sure that they do it [conform to licensing] in order to get the money to run their clubs ---“

[MED]

### Summary

There is overwhelming support for the FFC framework’s objective to ensure regulated access to credit for clubs. In general, the majority of the clubs do not have assets that could be easily utilised as collateral and that explains why most of the clubs still utilise the services of the discount houses despite the high cost (see Section 5.5.1). It also explains why overdrafts are the preferred type of credit from banks (section 5.5.1). The clubs argued strongly that the FA should not withdraw the guarantees they offer to clubs who wish to obtain loans from financial institutions as the clubs cannot raise collateral on their own. The need to obtain the loans, the clubs argued, arises out of the FA’s inability to pay league rights fees on time.

The attempt by the FA to convince a group of financial institutions to provide funding to clubs at rates lower than market rates is laudable. Its success, however, depends on the FA’s ability to demonstrate to the financial institutions

that it regulates its members, and that its clubs have sufficient receivables to allow them to pay back their debts. By providing the financial institutions the guarantees required on behalf of its clubs, the FA would be encouraging regulated access to credit by its clubs.

#### **7.4.2 Access to Government Funding**

The FFC framework includes the creation of a Youth and Infrastructure Development Fund, with funding from government sources, from which clubs which show practical support for youth development could be provided funding. Despite the long-held believe that Ghanaian clubs do not want government to interfere in the administration of club football (Bediako, 2012), the clubs believe that there is a crucial role for government in the financial regulatory framework, especially if it involves providing funding to clubs. One club however, drew attention to the difficulties in justifying government support for private sports clubs as noted in other countries (Noll and Zimbalist, 1997), suggesting that:

“--- because the clubs have their own ownership structure that is the reason it would be difficult for Mr Government to maybe use state funds to support this---[for example] if the club is owned by just an individual then Mr Government is [seen as] giving money to that individual---“

[CHE]

However, the majority of clubs argued that football plays a very important social role in Ghana (Panneborg, 2010), and this could justify government financial

support to clubs. According to club interviewees, such support for private clubs is acceptable on the grounds of the external social benefits generated by the clubs in terms of youth employment, and a general support for the youth development policy of the government:

“---Government has got a policy for the youth--- to take the youth from the streets. The football clubs are private sector [organisations] but they have taken most of the people off the streets. But for the clubs all these people [the players] would be roaming on the streets and they would be a nuisance---I mean doing deviant behaviours and all these things---“

[ARS]

Such arguments are the basis of similar support that exists in other countries, including France (Senaux, 2011) where the products or activities engaged in by football clubs are considered a public good. Elsewhere, for example, Portuguese clubs receive subsidies from state and municipal governments (Barros, 2006); the Brussels capital government in Belgium subsidises clubs with Brussels in its name (Dejonghe and Vanderweghe, 2006); whilst in Ireland clubs receive direct financial support from the government in an attempt to promote participation in team sports among youngsters for health reasons (Bourke, 2011).

Some club interviewees argued that they also train and provide exposure to the players who in due course represent various national teams, whose exploits in

turn are a source of image enhancement for the country (interviews with ARS, HOO) (Hallmann et al, 2013):

“---(As for) government funding I am always for it because I think that even though individuals are investing from their own pockets and other things, the government benefits a lot ...in terms of exposure---“

[ADU]

Consequently, they argued for government support for clubs taking part in CAF inter-clubs competitions, suggesting that this is the case in other African countries. As one club noted, participation in the CAF inter-club competitions is not financially attractive based on a private cost-benefit analysis (interview with KTK). Another club offered a solution:

“---So I will suggest that in future the FA should sit down maybe in collaboration with the government and maybe set up [a fund]--- if government budgets for US\$ 1 million every year [for clubs] --- it's not too much. Every club takes US\$250,000 as seed money to start the African campaign---“

(ADU)

According to the clubs, the activities of football clubs also help to reduce conflict; an essential ingredient for national development and is a commodity greatly sought after by policy makers, and one which policy makers need to contribute to its attainment:

“---it should not be mere rhetoric--- that football is the passion of the nation. How much are you contributing to that passion of the nation---that exercise that brings the country together for at least two, three days--- so that you the politician would also have your peace?---“

[ASH]

Some interviewees suggested that the government support should come in the form of a grant instead of a revolving fund, something which was abolished years ago when clubs failed to pay back the loans. Expected beneficial effects were also identified:

“---Am sure that it [government support] would motivate the clubs to do very well, and if they do very well it would also reflect on our national teams because clubs would be ready to buy quality and train them. Even if they don't buy they would be ready to invest, put up infrastructure to train players---“

[ADU]

Some interviewees argued that financial support from Government or the FA to a club should be contingent on the club satisfying the financial licensing regulations within the FFC framework, and having in place an effective financial management system to ensure that the resources are put to good use. An improved financial regulatory structure, one official argued, would provide the

conditions under which good behaviour was rewarded, encouraging more clubs to act responsibly (interview with ADU).

On the other hand, Government support through the operation of the FFC framework was also seen as a crucial incentive for clubs to conform to financial licensing regulations. As such the clubs argued for a role for Government in the operation of the FFC to ensure the transparent use of the resources it provides (interview with ADU, ASH and DWA):

“---And I think that with the advisory body as you are suggesting maybe the government would be well informed about how things are being done and about how transparent the kind of system that we have in place now and from that angle you can also convince them to draw them into [funding] it [clubs]---“

[HOO]

“---If it [the FFC Board] is a three member body, [then it requires] one person from the government and two from the FA ---“

[ADU]

In general, it could be argued that the request by Ghanaian clubs for Government support is common in other African countries, and in Europe, even when the FA is independent of government. For example, the Swiss FA receives both direct and indirect public support annually which allows it to

provide funds to clubs which engage in observable youth development (Mutter and Huber, 2011).

### **7.4.3 The Player Transfer Payment System**

This section discusses the interviewees' opinions about the proposed introduction of a player transfer payment system within the FFC framework designed to improve the flow of income to and from clubs.

#### The Existing Practice in Player Transfer Payment

As a source of internally generated funds, domestic player sales are a key source of private funding for a lot of clubs. It was argued, however, that there is no proper way of tracking player transfer payments amongst clubs, leading to overdue player transfer debts (interview with TY). These overdue payments compel some clubs to look for credit facilities from the financial institutions while they wait for their counterparts to pay them. The FA introduced an informal player transfer payment system where the credits in favour, and debits against, a particular club are settled from that club's share of league rights revenue. The League officials used examples from two clubs to show how the informal system works, but also to highlight the challenges it faces:

“--- [For example] Kotoko will tell Lions ‘look we don’t have the money at the moment so when we get our sponsorship purse [money] we will be able to pay’. So then they go into an agreement and decide that any time the [league] sponsorship money comes through, it -

[Kotoko's] - share should be used to pay Lions so much. They would sign the contract and send it to the FA. As to whether the FA accountant has got all the details by just a click of a knob on his computer or whatever, to be able to ascertain that these are the outstanding [debt owed by Kotoko] to Lions and for which reason whenever monies comes this should done--- this is another issue---

[PLB]

The FA admits that challenges do exist with the current system and even threatened to suspend the process:

“---There is no organized system for it and so everyone does whatever he likes... They buy 20 players --- let say the players may be worth two hundred thousand and your GLO money is a hundred thousand. The money comes and then the FA is caught in a web. You don't know who to pay first ---“

[FAP]

Notwithstanding its weaknesses, the debt-clearing system has helped many clubs purchase players on credit, helping them to better manage their cash flow. Thus it is not surprising that the clubs are against the abolition of the informal player transfer payment system, citing FIFA's Transfer Matching System (TMS) as an example of a player transfer payment tracking system that works efficiently (interview with FAI and LIB). The evidence thus suggests that

the current system is inefficient, with clubs buying players even when they know they do not have the resources to pay (interview with BC). One club argued, however, that the FA is only interested in the documents covering the transfer and not in how the payments are settled (interview with TY).

The volume of cases dealt with annually by the Player Status Committee of the FA annually in respect of breach of the financial terms of player contracts is a clear manifestation of the problem (GFA, 2011). This could be argued as contrary to the principle of fair play: clubs are able to win matches that are beyond their true financial capabilities. This could also be likened to 'financial doping' (Hamil and Walters, 2010). The clubs therefore argued for the introduction of a formal internal transfer payment system (see example, interview with FAI).

### The FFC Framework and Player Transfer Payment

The clubs stressed that overdue payments from domestic player transfers were a major problem for Ghanaian clubs, especially the smaller ones which are net transferors (for example, interview with FAI). They were in favour of the implementation of a financial licensing system that incorporated a player transfer payment system, such as the one proposed by the FFC framework:

“---These [transfer payment system] are some of the things that I expect the association would have to do. So that --- for domestic transfers... people would not even accumulate debt. If you know that you have to pay 20,000 [Ghana Cedis] within the next thirty days, you will budget in such a way that when you are buying players you will

look at what you have and what you can pay within a certain period before you do the negotiation. “

[ADU]

It was also argued that the ability to buy players on credit due to the operations of the FFC player transfer payment system, on its own is an incentive to comply with the financial licensing regulations (interview with HOL). On the other hand, the financial licensing system proposed by the FFC framework could also help the player transfer payment system:

“---If your particular account shows deficits [then] it would be difficult to contract another player--- How are you going to pay? The truth is that once they are reviewing the financial statements these things (overdue debt) would not even arise---“

[LIB]

The introduction of the player transfer payment system is a concept that the FA is not against (interview with FAP), as the FA appreciates that the accumulation of debt from player transfers has the potential to threaten the long-term survival of the buying club. It would be an attempt to control an aspect of the interactions amongst firms (Sappington, 1994). One club, however, believed that whilst the role the FFC Board plays in ensuring that clubs do not have overdue debts is a good thing, having debts should not be a major problem so long as the two parties involved could renegotiate the debt when due (interview

with Kotoko). This arguments mirror the position of UEFA which repeatedly argues that the UEFA FFPRs are not anti-debt (Bell, 2011).

#### **7.4.4 Summary**

Ghanaian clubs face major challenges in accessing funding from financial institutions. Whilst the main challenge to obtaining credit from the discount houses is the cost of credit, raising the collateral guarantee is crucial to obtaining credit from the banks. That is the reason why clubs argue that the FA should not withdraw the guarantees they offer to clubs which wish to obtain loans from financial institutions. The attempt by the FA to convince a group of financial institutions to provide funding to clubs at rates lower than market rates is also considered laudable and is the type of initiative that falls within the general incentives proposed by the FFC framework.

In general the clubs argued for government support based on the perceived benefits enjoyed by society from football's production process including employment creation, reduction in conflict, development of sporting talent for national teams, and the enhancement of the national image in international sporting circles; essentially a public good argument. The evidence also suggests that the existing player transfer payment system is inefficient and that Ghanaian football requires a player transfer payment system similar to that proposed within the FFC framework. However, the FA would require an injection of resources, both financial and human, to be able to efficiently run any system of player transfer payment.

## **7.5 FINANCIAL CAPACITY BUILDING AND POLICY ADVOCACY**

This section focuses on the need for capacity-building for clubs and the role of the FFC framework in achieving this.

### **7.5.1 Financial Capacity within Clubs**

Millar and Stevens (2012) have argued that training is necessary for the improvement of performance and learning of individuals within an organisation. The need for a capacity-building program for clubs is evidenced in clubs' admission that they lacked adequate resources to ensure that their financial management systems run efficiently. In the opinion of the clubs there is demand for the FA or its agents to build the financial capacity of clubs, as they do not even have the capacity to appreciate the import of the financial contracts they sign:

“--- the clubs themselves must have the capacity [but they don't] ---many of them operate from the bedrooms of their owners. There are really no proper administrative set up [in most clubs] ...“

[KTK]

Despite the obvious lack of adequate capacity within clubs, the FA has no existing program to provide financial advisory or training services. This, according to some clubs, is because the FA itself does not have the resources, financial or human, to provide the necessary advisory service or training programs:

“---It [capacity-building program] does not exist--- don't waste your time--- it does not exist. You have to be very honest. It does not exist. Where? Maybe now we are trying something like that but currently it does not exist---“

[LIB]

Some clubs suggested that a financial licensing system which not only reviews financial statements but also incorporates training and advisory services to the clubs (interview with ADU and HOO), along the lines suggested by the FFC framework is very necessary:

“--- [training in financial management] is very, very important. You don't presume you know everything and we all learn every day. So if there is a program to improve our knowledge in everything --- that is something that is long overdue. We have to get people to train us on all those things---“

[ARS]

This is in tune with the key characteristics of a clearing house that involves licensing members for participation, regulating and monitoring their activities, and the provision of incentives and support services to ensure regulatory compliance (Acharya et al, 2008; Goodhart, 1988; Long et al, 1993; Zimmeren et al, 2006). The FFC framework is considered by the clubs as providing the necessary instruments to provide capacity building programs to the clubs which are currently lacking and also improve on their level of professionalism. For

example, one club discussed the importance of the role expected to be played by the FFC Board which oversees the implementation of the proposed FFC framework:

“---You did not just introduce, let’s say, the monitoring but you also want to make sure that [the FFC Board] gives advice ---and for me it would grow clubs. It would also help clubs to really develop in a certain way--- a more professional way than just growing because am winning leagues---“

[MED]

According to one club official, the FFC Board could, for instance, provide directions as to which financial institutions a club should deal with when they require financial assistance (interview with ARS).

The process of implementing the club licensing system would also require that the capacity of the club staff is developed (Millar and Stevens, 2012) by the FFCB to allow them to appreciate the requirements of the licensing system:

“---It’s [provision of financial advisory services] very crucial... we need to involve the stakeholders, to capacitate them --- that would mean taking them through a training and development process that would make them capable of implementing whatever the clearing-house is trying to do---“

[TY]

Even where the clubs employ qualified personnel to fill financial management positions, the need for a process of continuing in-service training on relevant financial issues cannot be over-emphasised; something which is also argued by FIFA.

### **7.5.2 Policy Advocacy within the FFC**

Some interviewees believed that given the lack of capacity within both the FA and the clubs, an independent body of experts should relate to policy makers as advocates on behalf of the clubs:

“---If the clubs are confident that the FFC has got the men who can negotiate with government --- then there is a need for us to leave it [to them] so that they can sit down with the government. They have the expertise, they have the knowledge, and they have the know-how. They can convince the government. I mean the clubs --- we cannot do everything--- “

[ARS]

This independent body of experts working along the lines proposed by the FFC framework (see section 6.5.3) would, it is argued, be in a better position than the clubs themselves to relate to policy makers on policies that have either direct or indirect impact on the financial management of clubs such as stadium rental charges, taxation, and duty exemptions on the importation of sports goods (see section 4.4).

### **7.5.3 Summary**

The evidence suggests that there is a lack of adequate capacity within the clubs and the FA to ensure that clubs integrate efficient financial management practices into their operations. The clubs believe that even the process of implementing the club licensing system would require that the capacity of the club staff is enhanced in terms of financial management, to allow them appreciate the requirements and benefits of the licensing system. The human resource base of the FA is also limited, and as such the introduction of an expert body in the form of the FFC Board into the financial regulatory arena has the potential to greatly enhance the capacity of football's stakeholders in Ghana.

## 7.6 INTERROGATION OF FFC FRAMEWORK

This section focuses on the views of the stakeholders on the overall applicability of the FFC framework in Ghanaian football and the implementation challenges that need to be dealt with to ensure its success.

### 7.6.1 General Impressions

There was overwhelming support from interviewees that the implementation of the FFC framework would improve on the existing financial governance systems in Ghana football:

“---The model is super, fantastic---and me as a person am looking forward to that---“

[EDU]

“---if you have a body which is watching you, your financial operations it would keep you on track. It would keep you in check---“

[WAA]

“---I’m so much in love with the first aspect (access to credit) ---“

[HOL]

All clubs were in favour of its implementation and complimentary about the proposed model, suggesting, for example: that it was long overdue (ASH); would solve the concerns of the clubs over financial management (DWA); and that it was essential it be given the necessary support to succeed (TY).

The general impressions of the interviewees can perhaps best be summed up by the comments of one respondent who suggested that:

“---I believe this is a wonderful idea. I don't see any existing body of the FA that can do what you are talking about. This is a whole new thing because there is nothing here that already exists. There is nothing here. There is nothing like any financial body already in place. This is a very wonderful innovation that must be commended and must be accepted and approved---“

[LIB]

#### **7.6.2 Form of the FFC Framework**

Some interviewees agreed that the ability of the regulatory body to achieve its defined objectives would depend to some extent on the quality of the human resources at the disposal of the regulator, which affects its independence (Baldwin and Black, 2008; Sappington, 1994). For example:

“---One thing that I also like is the professional background of the members of the committee. It would help clubs even to be more innovative since they want to make sure that they keep their license---One thing I like about it is that they are independent so that they cannot be influenced by any club or even the FA itself---“

[MED]

The argument here is that with a high quality staffing of the regulator, it would not be easy for a club to engage in fraudulent accounting without being found out. The interviewees argued that the regulator's ability to maintain its independence from the clubs and the Football Association, and to limit the possibilities of regulatory capture (Boehm, 2007), is crucial for winning the confidence of the clubs and even government (for example, interview with LIB). Government would also be more comfortable providing funding if the regulator's independence could be guaranteed. This resonates with the key conclusions in the regulation literature that the form and scope that a regulatory framework takes depends on the resources available to the regulator (Baldwin and Black, 2008; Rodrik, 2000; Sappington's, 1994).

The clubs were also in favour of the introduction of experts from outside the existing governance structure of the FA, into the regulatory framework as they believed it would help improve their financial systems, thus taking a cue from the composition of UEFA's CFCB:

“---You want experts. You want professionals. So it does not matter. If you want experts and you don't have it within and you want to engage outsiders there is nothing wrong because you just want the right thing to be done---“

[LIB]

The quality of personnel of the regulator, according to one interviewee would breed confidence within clubs that the regulator is capable of providing policy advocacy on behalf of the clubs (interview with ARS). Thus an independent and well-resourced regulator is required to engender confidence amongst the

stakeholders of Ghana football to ensure the successful implementation of the FFC framework.

### **7.6.3 Expected Implementation Challenges**

This section analyses the expected implementation challenges raised by the interviewees, including the amount of education required for stakeholders, resource requirements, phasing of implementation, and the quality of existing complementary control institutions.

#### Education Requirement

The key challenge that clubs expect to confront in the implementation of the FFC framework is the need to provide education to stakeholders prior to implementation. The interviewees were of the opinion that the implementation of the FFC framework in Ghanaian football would require that stakeholders within the clubs, as well as within the Football Association, are taken through a process of education. For example:

“---I think from the way you’ve taken me through it I think it is a good model but the challenges are enormous because this is a lengthy model where clubs need a lot of education to be able to be abreast with it---“

[DWA]

The FFC framework incorporates a process of training for the staff of clubs and as such has inherent tools to deal with the challenge of education prior to

implementation. The evidence in this study suggests that there is a general lack of capacity in terms of financial knowledge within the football industry in Ghana. There is a tendency for people to oppose changes to regulations especially when the new regulations are not fully understood (interview with ARS). Thus the clubs believe that the training of stakeholders on the tenets of the FFC framework prior to implementation is crucial to its success:

“---It’s a matter of understanding the concepts ---So it involves training--- Maybe we have to involve GHALCA so that we get the clubs’ representatives, educate them, let them see the importance so that they would all cooperate and embrace the change---“

[BC]

The position of the clubs is consistent with that taken by UEFA before the implementation of the UEFA CL & FFPR. A series of training seminars had to be organized by UEFA before the final position was adopted (Bell, 2011), and this has been complemented by ongoing dialogue and workshops involving clubs, domestic governing bodies and UEFA. The FFC framework incorporates a system of continual training for clubs and FA staff to deal with the education requirements even after implementation.

### Resource Requirements

Another key challenge identified in respect of the successful implementation of the FFC framework was whether the clubs have the resources to conform to the requirements of the licensing framework. In a resource-constrained

environment such as that found in Ghana, minimizing the cost of any regulatory process is crucial (Ehrlich and Posner, 1974). The constrained resources in question here are not only financial resources, but also human and physical resources (Sappington, 1994).

“--- Looking at the financial strength of the clubs ---maybe the idea you have brought is very good, but being able to comply would be a problem to the clubs ---We are looking at a department or a clear-cut department that would take care of the finances of the clubs. Maybe some of them are not doing it because ---one--- getting the offices in place is their problem... [and] two---getting the personnel to fill the places is a problem. And for that reason they may prefer seeing an auditor put one or two things on paper for them and then they pay something which would be far less than what they would have incurred on (qualified persons)---“

[HOO1]

The FA's and the clubs' ability to ensure the successful implementation of the FFC framework may be hindered by their limited resources – human, financial and physical. However, at the same time, other interviewees thought that compliance should not create too many challenges as the FFC licensing framework does not require them to do much more than they already have to do under existing regulations (interview with HOO2).

Whilst this argument by the interviewee might be true in form, in practice complying with the FFC regulations would involve higher resource cost (both

human and financial) and better quality personnel. It requires them to improve on the quality of the financial disclosure by ensuring that the entire financial reporting process conforms to laid-down principles and procedures (Said, 2011). It could be argued; however, that the FFC framework incorporates systems that help in improving access to funding for clubs and as such deals with the specific challenge of resource constraints.

### Phasing of Implementation

Whilst most clubs call for the implementation of the FFC framework, they also appreciate the fact that most clubs, and the FA, may not immediately have the financial and human resources to ensure effective implementation (interview with WAA, HOO2, DWA), leading to need for phasing of the implementation stage:

“---I think that we need to do it in phases because all the clubs might not be able to measure up to certain levels---. So if it is implemented in phases and clubs are given time to make sure that they put certain things in order [it would be appropriate] ---“

[MED]

Some clubs argued that it may take a minimum of three years to ensure that every aspect of the FFC framework is operational in Ghanaian football (interview with LIB, ADU), including the adoption of the FFC framework into the statutes of the FA. Even in Europe where the stakeholders have considerably

higher levels of financial capacity than exists in Ghana, UEFA sought to phase the implementation of its UEFA FFPR to allow for all concerned to come to terms with the tenets of the new regulations (Geey, 2011). Thus, the call by Ghanaian clubs for the phasing of any new financial regulatory framework is not unusual. The FA would therefore have to determine what the most appropriate phasing plan for the implementation of the FFC framework would be to achieve maximum effect.

#### Quality of Complementary Control Institutions

According to some of the interviewees, amendments to the FA Statutes would have to be made to allow the FA's judicial system, as well as its administrative set-up, which would be relied upon by the FFC framework, to function effectively.

“---From what I have seen whether even those regulators are honest in dealing with issues of misconduct on the part of clubs is another issue. The kind of administrative mechanism, judicial mechanism in place, appears to be seriously undermined---“

[KTK]

There is also the possibility that conflicts may arise between the FFC Board and one or more of the existing regulatory bodies such as the PLB, the Executive Committee and the Finance Committee of the FA (interview with FAP and KTK). This may be as a result of role conflict (Prouty, 1988); competition over the limited resources of the FA (Deacon, 1993), differences in the rewards

systems offered by the FA for membership of the various Boards (Cliff, 1987) or communication problems (Slack et al., 1994). In each situation, the FA may adopt conflict management solutions such as providing clarity in role definition and increasing resources (Kolb and Putnam, 1992). Thus, the effectiveness of the FFC framework, it could be argued, would crucially depend on the efficiency of existing complementary control institutions in Ghana football.

### Summary

The FFC framework would require a wide range of training programs for the clubs and the FA to allow them deal with the extensive educational requirements for the implementation of the FFC framework. Pre-implementation orientation seminars for the clubs and other stakeholders on the lines adopted by UEFA prior to the implementation of the FFPRs (Bell, 2011) would help the stakeholders understand and accept the tenets of the FFC framework.

An improper phasing of the program could result in an inability of the stakeholders to adapt to the requirements of the FFC framework. The FA would thus have to determine the most appropriate phasing plan for the implementation of the FFC framework to achieve maximum effect.

In a resource-constrained environment such as the one experienced by Ghanaian professional football clubs, the cost associated with implementing the FFC framework both at the club and the FA level becomes critical to its success. It could be argued however that the FFC framework incorporates systems that help in improving access to funding for clubs and as such deals

with the specific challenge of resource constraints. The conflict management strategies adopted by the FA would also determine the success of the FFC framework in integrating into the existing structures of the FA.

## **7.7 CONCLUSIONS**

On the basis of the evidence collected from this study it is reasonable to conclude that the improvement in financial management of the clubs would improve the creditworthiness of the clubs and, in effect, the credibility and integrity of the financial management practices of the clubs in the league. It is anticipated that this would in turn encourage sponsors and media organisations to associate with the clubs, ensuring the long term financial stability of clubs and encourage spectators to increase their consumption of the football product as a result of the improvement in quality and credibility of the league.

The implementation of the FFC framework would improve on the existing financial governance systems in Ghana football. The clubs argue that as part of the financial licensing systems, the FFCB should be given the power to review the financial statements of clubs to ensure that they comply with international financial disclosure standards. The FFCB, according to the clubs, should also define context specific mandatory disclosure requirements for Ghanaian clubs to conform to, ensuring comparability of financial statements across clubs. The Board should also ensure that clubs do not have overdue payments to employees, other clubs resulting from player transfers, and to tax and social authorities as required under FIFA CLRs. The FFCB is also expected by the stakeholders in Ghana football to engage in the continual review of the financial

sustainability of clubs as the basis of the financial advisory services they would provide the clubs under the FFC framework.

A key component of the FFC framework is to ensure that clubs have regulated access to funding. This funding may come from both private and public sources. It is therefore not surprising that the clubs which are resource constrained see the FFC framework as a solution to their financial difficulties. By helping clubs access funding, the clubs view the regulator as a partner in fostering industry development and investment. The key incentives that the club consider would be crucial in getting them to conform to licensing requirements include the streamlining of the player transfer payment system, the guaranteeing of credit from financial institutions, the FA and GHALCA, and access to funding from government sources.

Clubs admit to a lack of capacity within their organisations to be effective in their financial management. As it incorporates financial training and support services, the FFC framework is viewed by the clubs as providing the means by which to improve the level of professional approach to financial management within their clubs. More generally, this also provides an opportunity to foster football industry development in Ghana. The key football stakeholders support the inclusion of training in financial planning, budgeting, analysis and taxation for club and FA officials as a way of improving capacity within those organisations. The FFCB should also provide advisory services in best practice in financial management and financial disclosure for key industry stakeholders. The stakeholders also believe that the FFC Board would be in a better position

than even the FA Board to provide advocacy services on behalf of the clubs in respect of government policy towards football in particular, and sport in general.

The above conclusions are crucial ingredients in the modification of the FFC framework discussed at the conceptual level in chapter 6 into the modified version outlined in the next chapter.

## CHAPTER VIII

### THE MODIFIED FFC FRAMEWORK

#### **8.1 INTRODUCTION**

The aim of this chapter is to utilise the results and discussions on the role of the FFC in the financial regulation of professional football clubs in Ghana, undertaken in chapter 7. The original draft FFC framework outlined in chapter 6 developed out of a comprehensive review of the academic literature on regulation which resulted in the adoption of Sappington's framework as the conceptual framework of the thesis (chapter 2), a critical review of existing regulatory frameworks using Sappington's framework as the theoretical basis (chapter 4), and a review of Ghanaian football finance (chapter 5).

These reviews were done to provide the theoretical and empirical lessons for the development of the context-specific FFC framework. This framework is then developed and modified based on conclusions drawn from the interviews with stakeholders in Ghanaian football. It also incorporates the analysis of their views on the financial regulation and management in Ghanaian football and the interrogation of the FFC framework set out in the previous chapter.

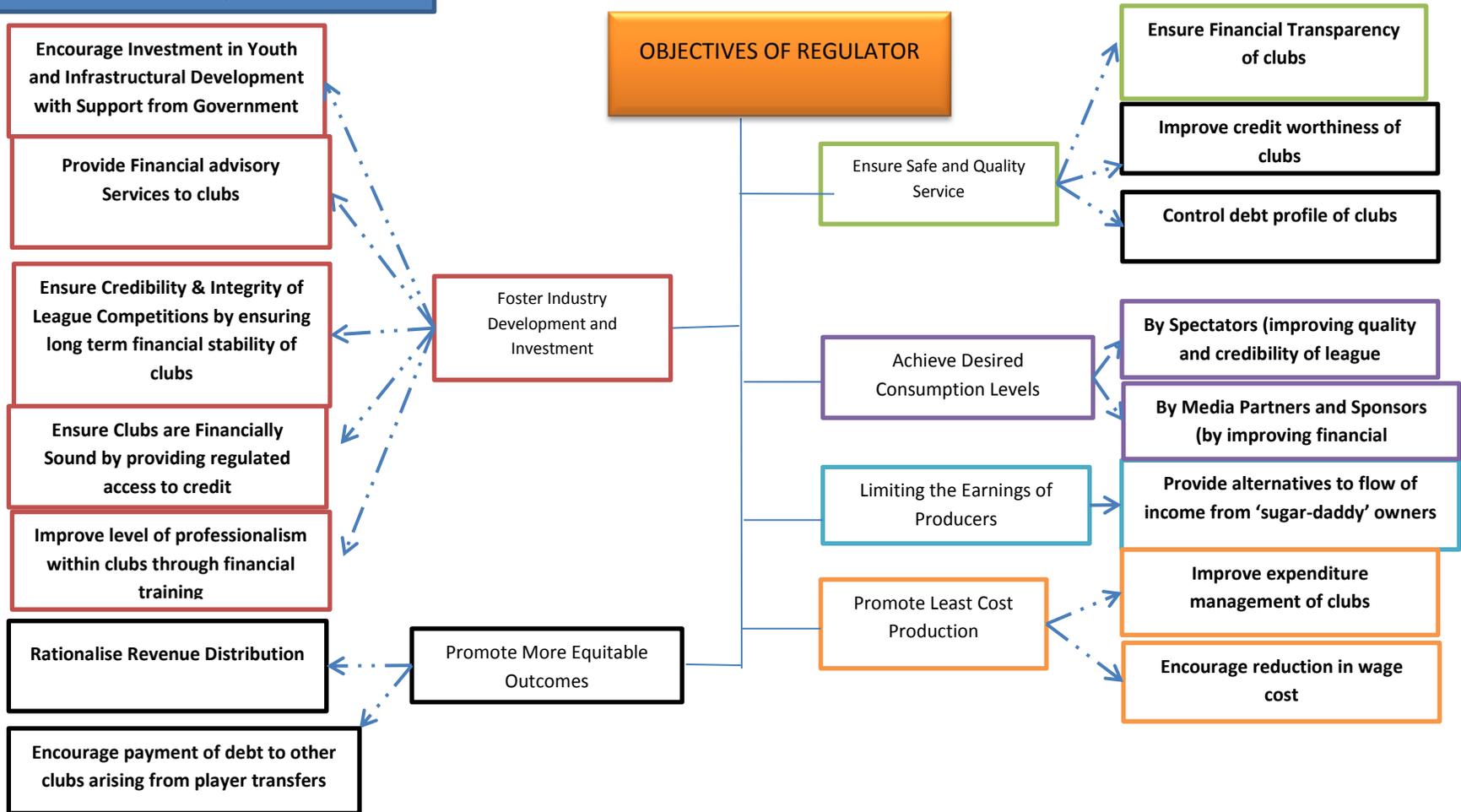
In arriving at the modified version of the FFC framework, great attention was paid to the suggestions made by the clubs in terms of the key challenges that are expected to be encountered in the implementation of the FFC framework in its conceptual form, as discussed in section 7.6.3.

## **8.2 THE OBJECTIVES OF THE FFC FRAMEWORK**

As discussed in section 6.3.1 the overarching objective of the FFC framework is to provide an incentive-based financial regulatory framework for professional football in Ghana. It aims at incorporating the concept of financial licensing as the basis of the financial advisory services provided to clubs. It also aims at improving the likelihood of regulatory compliance by providing regulated access to funding for clubs, and by ensuring that the financial activities of the clubs are constantly monitored. Figure 8.1 – Objectives of the FFC Regulator - is a modification of Figure 2.2, incorporating the views of stakeholders in respect of how specific objectives could be achieved. The discussion that follows highlights the changes that have arisen as a result of the discussions with football's stakeholders in Ghana. The modifications include the detailing out of specific objectives of the FFC regulator obtained as part of the interrogation of the draft framework, and these are the highlighted parts of Figure 8.1.

The proposed FFC regulatory framework also aims to provide incentives for new investment in industry development (Sappington, 1994); by encouraging investment in youth and infrastructure development via support from the 'Youth and Infrastructure Development Fund', set up with support from government. A strong argument was put forward by the clubs to justify government support based on the social benefits arising out of the activities of the clubs. Industry development is also achieved through providing financial support services to the clubs to improve on the capacity of their staff. Training of staff would also improve the level of professionalism with which the clubs manage their financial affairs (Millar and Stevens, 2012).

Fig. 8.1: Objectives of FFC Regulator



By ensuring the credibility and integrity of the league competition, the long-term financial stability of the clubs would be improved through improved flow of resources to clubs from sponsors, media partners and spectators. The FFC also aims at ensuring that clubs are financially sound by providing regulated access to credit. The clearinghouse serves as guarantors for credit taken by clubs from financial institutions and other members of the clearinghouse.

The revised framework seeks to rationalise the distribution of league and media rights revenue to ensure that the distribution is equitable and that clubs are also paid on a timely basis, in turn lessening cash-flow management challenges. The FFC framework also seeks to encourage clubs to settle debts arising from player transfers through the implementation of a player transfer payment system, something clubs considered crucial for improved cash-flow management.

In order to ensure that the football product is safe and that stakeholders are provided with quality services, the framework also aims to improve the financial transparency, debt sustainability and credit worthiness of clubs through the process of financial licensing. The FFC attempts to encourage not only improved control of expenditure by clubs, but also to discourage clubs from taking on levels of debt which are not matched with their income generation capacity, particularly in respect of player purchases, player contracts, and loans from financial institutions (section 7.7).

The framework also seeks to encourage clubs to adopt least cost production methods especially by encouraging a reduction in wage cost. In contrast to UEFA's FFPR where the regulations place restrictions on, for example, funding injections by majority owners in terms of the determination of the break even result, no attempt is made within the FFC framework to discourage external investors from providing new finance to clubs, irrespective of how the finance is used. This difference in treatment demonstrates again the importance of context within financial regulation. As demonstrated in Table 5.15, Ghanaian clubs' sources of revenues are very limited and without benefactors, several clubs simply would not be going concerns.

### **8.3 THE INSTITUTIONAL ENVIRONMENT AND INDUSTRY CONDITIONS**

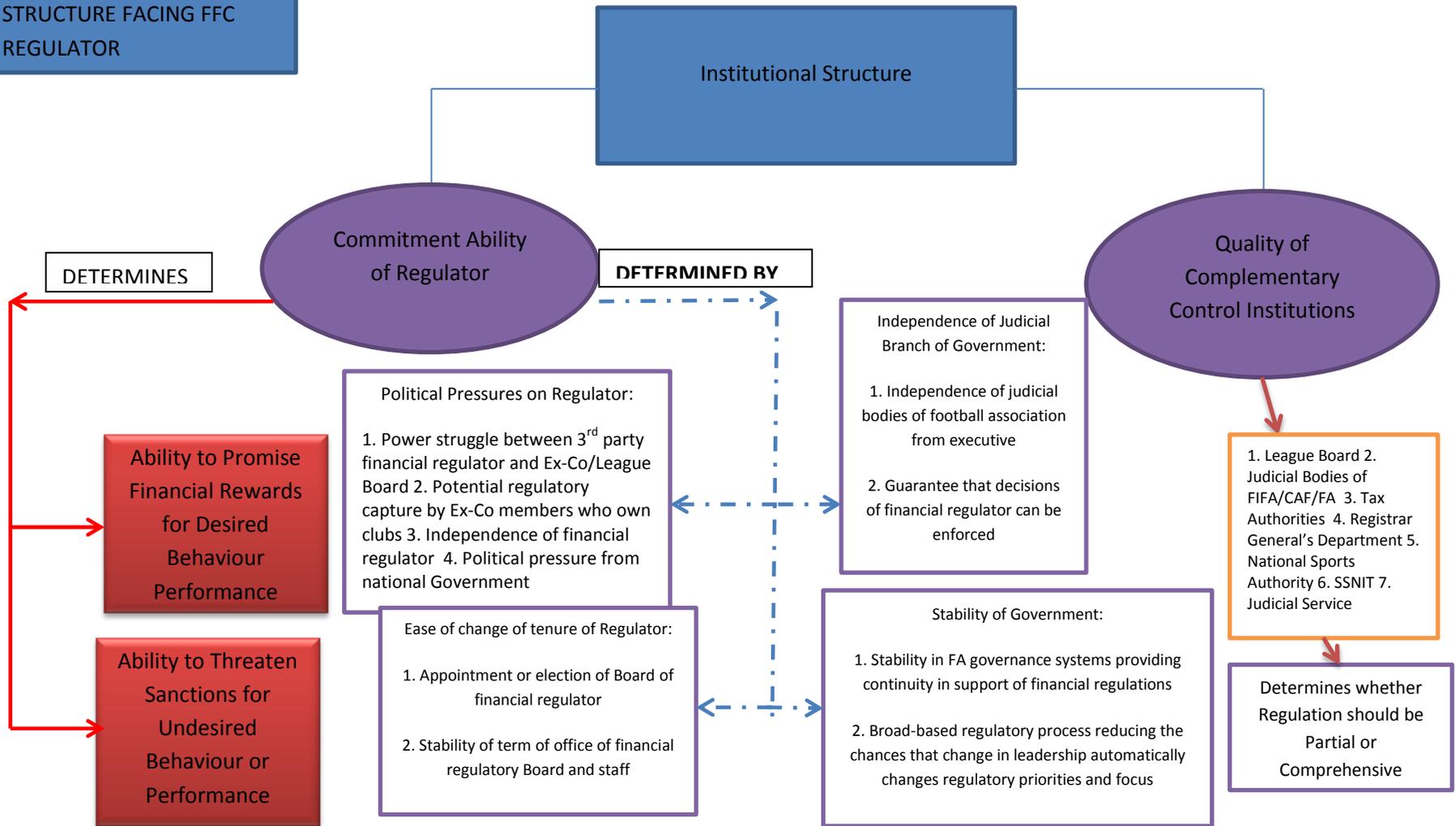
The institutional structure and the nature of the industry to be regulated determine the form that financial regulation takes (Sappington, 1994). According to environmental determinism theory (Cooke and Wallace, 1990), the type of financial disclosure in a country is determined by environmental factors such as the stage of economic development, political systems, legal rules, accountancy and regulatory systems, education level and the characteristics of business organisations in the country. In the view of Baldwin and Black (2008), a really responsive regulatory framework has to be mindful of the political and legal infrastructure, as well as the norms regulating conduct, which represents the institutional environment of the regulator.

The FFC framework recognises these factors as they contribute to the commitment ability of the regulator (Sappington, 1994), as well as to the motivational posture of the regulatee (Baldwin and Black, 2008). Thus the success or otherwise of the FFC Board would be determined by things like the political pressures on the regulator, the stability of tenure of the regulator, the independence of the judicial arm of the Ghana FA, and the stability in its governance systems. The quality of other complementary control institutions, within and outside the football environment in Ghana, would also be crucial in determining the scope of the regulation.

### **8.3.1 Institutional Structure**

Figure 8.2 provides an overview of the institutional structure within which the FFC framework has been developed. While Ghana has a small number of major clubs (3), ostensibly unlike other countries, these clubs are not overly powerful within Ghanaian football. Only one out of the three big clubs, for instance, has a representative on the FA's 23 person Executive Committee which is dominated by officials of clubs of relatively smaller size in terms of supporter base and income. Moreover, various committees of the FA have handed severe punishments to big clubs. For instance in 2002/03, Kotoko was fined approximately US\$100,000 by the FA's Disciplinary Committee for inducing player Charles Taylor to breach his contract (GFA, 2003). Such examples, suggest that there is little evidence of pressure from big clubs which might affect the commitment ability of the financial regulator.

FIG. 8.2: INSTITUTIONAL STRUCTURE FACING FFC REGULATOR



The main challenge to the power of the FFC Board, however, is likely to come from the Executive Committee and from the Premier League Board who would, by the design of the framework, have to cede part of their regulatory power and authority to the FFC. In this context, it is unsurprising therefore that the FA President called for a unification of the FFC with the FIB of the Club Licensing System, with a view to avoiding possible role conflict (Prouty, 1988). However, particular skills have been identified as being required of the membership of the FFC Board. Given that the evidence suggests that these would not necessarily be available within the (FIB), coupled with the volume of work anticipated in the FFC framework it is argued that combining the two bodies is not desirable as it may overburden the joint body, leading to a possible loss of efficiency.

There is also the potential for regulatory capture, resulting from some clubs having representation on the Executive Committee and the PLB. There is the possibility that members of the FFC might want to favour clubs with Executive Committee positions in order to retain membership of the FFC. This brings into focus the question of the independence of the regulator. Sappington (1994) argues that the quality of the human resources available to the regulator is a potential defence against regulatory capture. Under the present system, the judicial bodies of the FA could be considered to be sufficiently independent from the Executive of the FA as decisions of the Disciplinary, Appeals, and Player Status committees are not subject to review by the Executive of the FA. Thus if the FFC is afforded the same level of autonomy, this would encourage confidence in the independence of the FFC and the integrity of its decision-making.

Previously the Executive Committee was greatly influenced by Government due to the fact that Government had the right to nominate three people to serve on the FA Management Committee, one of whom served as Chairman (see Section 1.1.2). This meant that a change in government automatically ended the term of office of the government appointees. Inevitably, this led to instability in the management of the FA and created the potential to undermine the regulation of football, with policy priorities changing with changes in government. Subsequently however, stability in the governance of the FA has been guaranteed by the current FA Statutes which clearly defines the basis for the removal of officers of the FA (GFA, 2010b, Art. 34.2).

The broad-based regulatory process adopted by the FA statutes also reduces the chances that even a change in leadership would lead to a change in regulatory priorities. It must be recognised, however, that the inclusion of Government in the FFC framework, through the setting up of the Youth and Infrastructure Development Fund, creates the potential for political pressure and lobbying to be exerted on football authorities. This is a fact appreciated by the clubs during the interview sessions (see section 7.4.2.5).

The quality of complementary control institutions within and outside the football industry in Ghana cannot be guaranteed (see Section 7.7). Several clubs either refuse or fail to honour tax and social security obligations on behalf of employees, with no consequence for the responsible institutions. Clubs fail to submit annual audited accounts to the Registrar General's Department in contravention of the rules governing registered companies in Ghana; with others failing to honour contracts with creditors without any sanctions. An effective financial regulator for football would therefore have to coordinate a

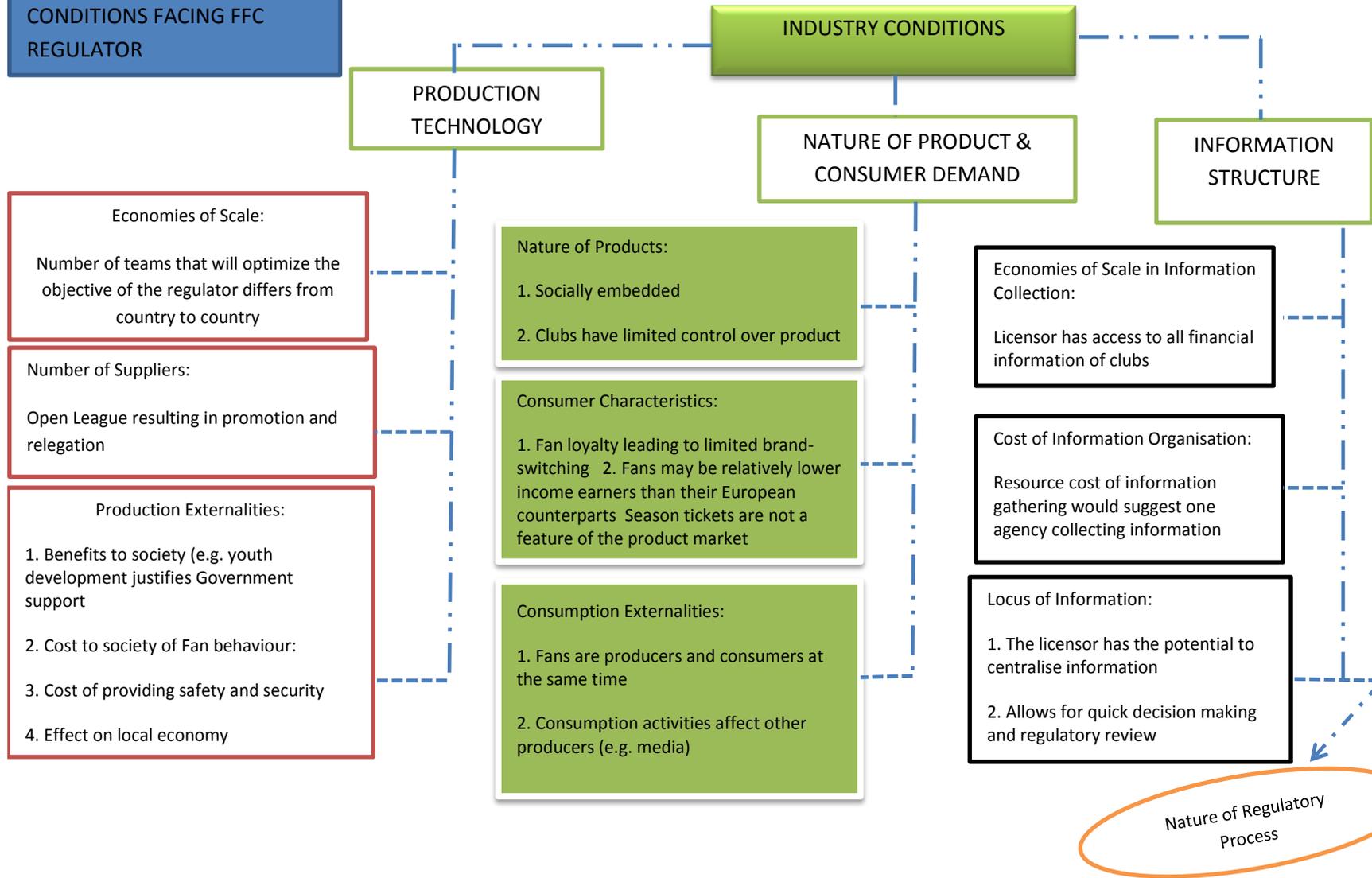
comprehensive system to ensure clubs become financially responsible. Thus the FFC Board would have to manage a more comprehensive regulatory system than would have been necessary if the other complementary control institutions were functioning effectively.

### **8.3.2 Industry Conditions**

Production externalities exist, and may be higher in Ghana than, for example, in most European countries where the youth have many more employment opportunities beyond football (Darby, 2009). In a developing economy like Ghana, the choices available to the youth are limited and as such the youth development efforts of the clubs arguably generate greater societal benefits than would be the case in a more developed country. Therefore it could be argued that there is greater justification for government support of football development in Ghana than would be the case in, for example, an average European football nation.

Figure 8.3 provides an overview of the industry conditions that characterise the Ghanaian football, and which potentially determine the form and scope of financial regulation in the country. Without providing evidence, Bediako (2012) suggests that the economic impact of clubs like Asante Kotoko on their host cities is significant and cannot be discounted. He notes, for example, that a victory by Kotoko in a league game boosts economic activity in the days following the match in Kumasi and its surrounding communities.

**FIG. 8.3: INDUSTRY CONDITIONS FACING FFC REGULATOR**



At the same time, the cost of policing unruly fan behaviour may also be significant (Greenfield and Osborne, 2010). This may also be particularly significant in a resource-constrained economy if scarce police resources are diverted to providing safety and security at football games (NDPC, 2011).

Income levels for the general Ghanaian population are lower than that of most European countries (NDPC, 2011). The Ghanaian football fan may thus have incomes that are considerably lower than their European counterparts, resulting in financial consequences for the clubs. For example, in terms of funding, season ticket schemes are not utilised as a source of pre-finance whilst in revenue terms, ticket prices are extremely low compared to European countries (see Table 5.5). Match day attendance and match revenue tends to fluctuate, as it is very much dependent on current team performance (Masteralexis, Barr and Hums, 2009) (section 5.5.5). Televised European matches have become the main source of competition, for the league, for fans' attention. It could be argued that if this trend does not change then match day revenue may continue to decline along with total revenue.

The financial crisis in European football is not a crisis of 'falling' income but an imbalance between income and expenditure, and existence of rising debt (Bank, 2002; Lago, et al., 2006). Whilst similar imbalances exist in Ghanaian football, the Ghanaian case is exacerbated by falling incomes (section 5.3). Cost of credit in the country is high and access is limited by the accumulated financial losses of Ghanaian clubs (section 5.5.1), and a lack of collateral. The Ghanaian financial regulator may thus have to attempt to help the clubs deal with the lack of access to financial resources that plague the league, the

paucity in human and physical resources (section 7.5.1), and a culture of non-service of debts owed to others (section 5.5.2).

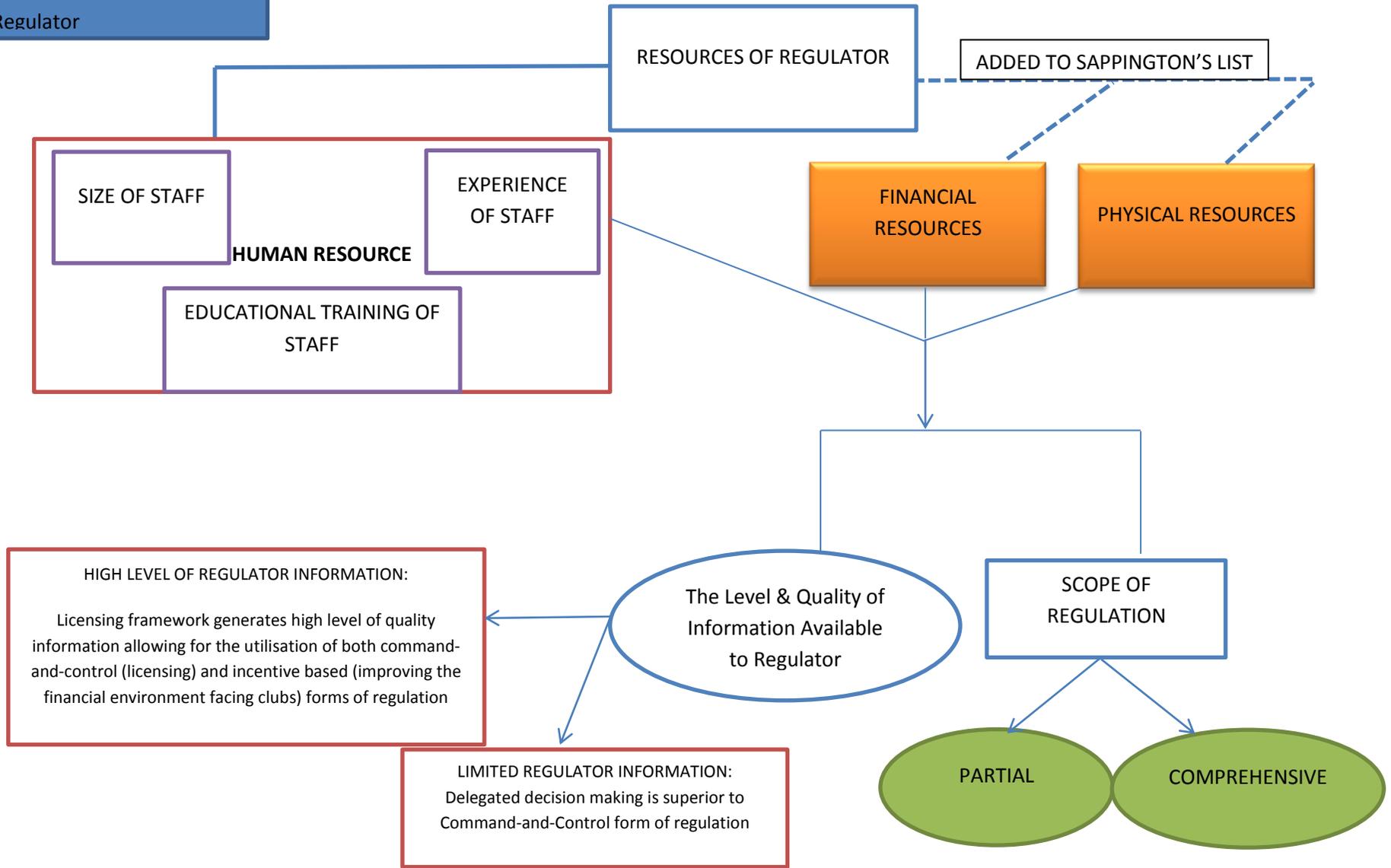
#### **8.4 THE RESOURCES, FORM AND SCOPE OF THE FFC FRAMEWORK**

Figure 8.4 provides an overview of the role of the regulator's resources in determining the form and scope of regulation in Sappington's framework.

The resources of the regulator that are critical in deciding the form and scope a regulation takes are the staff size, the educational training and the experience of staff (Sappington, 1994). Arguably, these represent only the human resources available to the regulator. Sappington, in contrast to Baldwin and Black (2008) lays little or no emphasis on the financial and physical resources required for the implementation of the monitoring schemes of the regulator, perhaps because he envisages these as being relatively inconsequential within the context of middle and high income economies.

In keeping with this, UEFA and the Scottish FA regulations only mention the fact that administrative support for the decision making bodies would be given by the relevant confederation or national association, without explicitly mentioning the financial and physical resources required.

FIG. 8.4: Resources of FFC Regulator



In a resource-constrained economy like Ghana, however, it is important to consider the effect of not only the human resources available to the regulator but also the financial and physical resources necessary for the attainment of the regulator's objectives, a point acknowledged by the clubs. The remuneration of the members of the Board and staff of the regulator, office space and equipment and transport facilities simply cannot be taken for granted in a developing economy context (see section 8.3.3).

Thus Sappington's framework formulation which only included the human resource base of the regulator has been extended with the inclusion of financial and physical resources to make it relevant for the Ghanaian context (see differences between Figs 2.3 & 8.4).

As has been argued previously, the Ghana Football Association's operations are associated with deficient information systems (section 5.2.1). As such, the financial regulator cannot adequately rely on existing structures to provide it with the quality of information required to make decisions in respect of the financial management of professional clubs. Coupled with the fact that complementary control institutions are less effective than in the developed world, financial regulation in such an environment would have to be more comprehensive in scope than in a European environment. Delegated decision-making would also seem superior to the command-and-control form of regulation in such circumstances (Sappington, 1994).

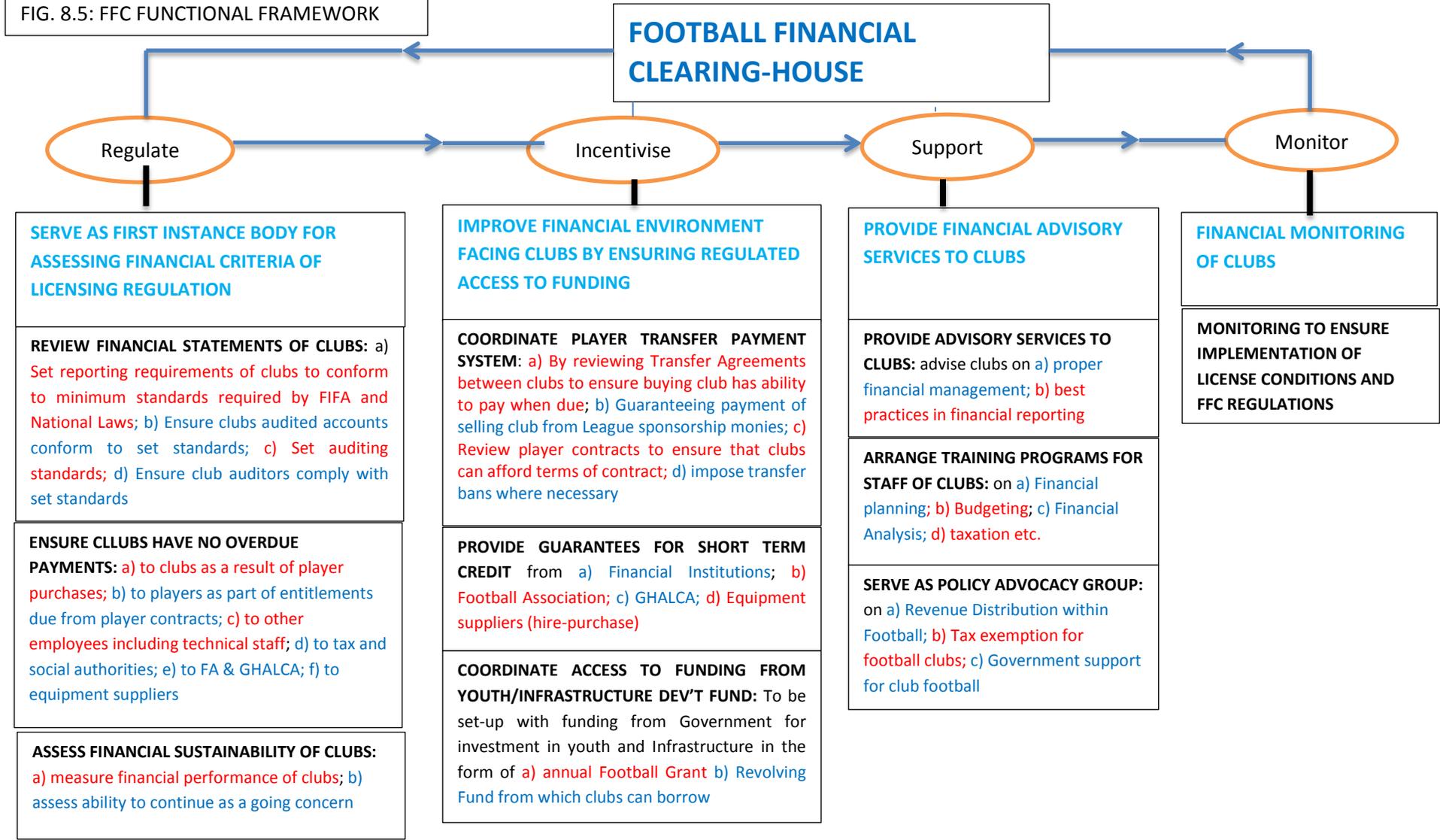
As discussed in section 6.4.1 and supported by the clubs during the interview sessions, the membership of the clearing-house would include the FFC, the FA, the 16 premier division clubs, financial institutions, GHALCA, the National

Sports Authority and equipment suppliers. This could be extended over time to cover division one clubs (see conclusions in section 7.7). The composition of the FFC Board remains as discussed in section 6.4.2 as all the stakeholders were comfortable with the attempt to achieve independence for the FFC Board. Despite the fact that the Board of the FFC would have to be appointed by the Executive Committee (Ex-Co), incorporating a legal requirement for the membership to have specific skills and competencies in the Statutes would serve to insulate the FFC Board from capture by the Ex-Co as per Sappington's arguments discussed in section 2.3 (see Walters and Hamil, 2013 for a discussion of the effect of Board composition on the exercise of power within the English FA).

## **8.5 THE FUNCTION OF THE FFC FRAMEWORK**

Figure 8.5 is a modification of Figure 6.1 in which the functions of the FFC are outlined. It has been informed by the theoretical discussions in chapters 2, the conclusions from the review of Ghanaian football finance in section 5.6 and the conclusions drawn from the empirical evidence obtained through the interrogation of the FFC framework in section 7.7. The framework provides for the financial regulation and monitoring of clubs, and the provision of incentives and support services for regulatory compliance. These functions derive from the general attempt by clearing-houses to license, regulate and monitor the activities of members (Finkelstein, 1966; Goodhart, 1988).

FIG. 8.5: FFC FUNCTIONAL FRAMEWORK



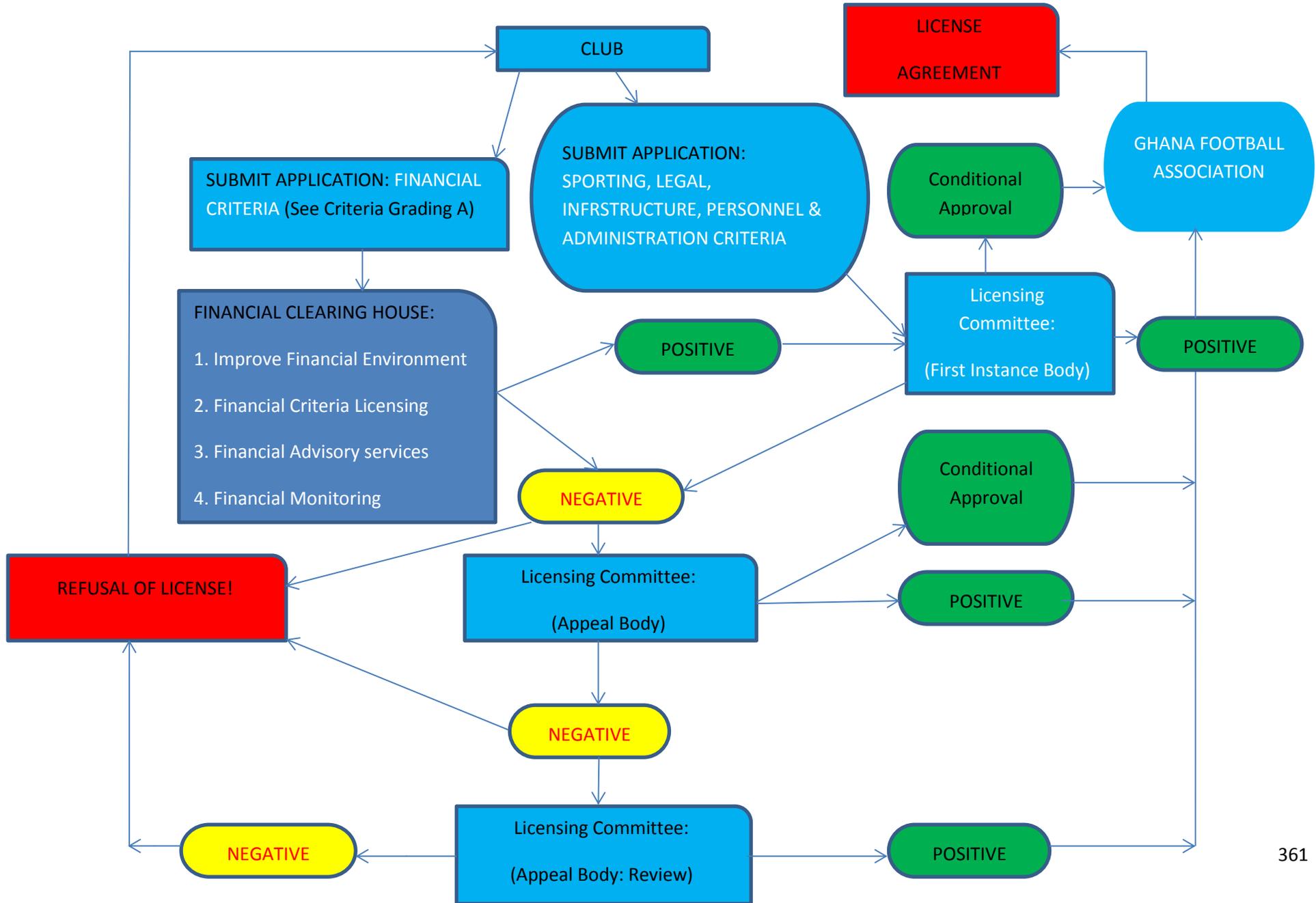
Other general functions of clearinghouses are to provide support services and incentives for members (Long et al, 1993); reduce risks and smoothen the operation of members (Acharya et al, 2008); and reduce the cost and time involved in dealing with other members of the clearing-house (Cornell and Reinganum, 1981; Finkelstein, 1966).

The FFC Board, as the regulator, performs the role of regulating the financial management practices of the clubs through licensing. It also ensures the implementation of the licensing conditions by clubs through a process of financial monitoring. In order to increase the chances that clubs are motivated enough and have the capacity to comply with regulatory and monitoring requirements, the FFC framework provides incentives and support services to clubs. The content of the boxes in Figure 9.5 have been derived from discussions with the clubs and the other stakeholders during the interview and focus group sessions

### **8.5.1 Licensing Clubs for Improved Financial Performance**

A key function of the FFC Board is to serve as the licensing body in respect of the financial criteria of the Club Licensing Regulations for professional football clubs in the country. The licensing framework has been extensively discussed in section 6.5.1. Whilst there were calls for the FFC Board to be merged with the FIB they have been retained as separate entities due to the skill requirements for the performance of the duties assigned. The functions of the FFC are extensive and cannot be combined with the highly technical and non-financial duties of the FIB in the FIFA Licensing framework.

FIG. 9.6: CLUB LICENSING DIAGRAM



In order to meet the financial criteria for licensing, clubs would have to prove that they have the financial resources to be able to meet their financial obligations for the licence year, and also have no overdue payments to employees, tax and social security authorities, and other clubs at the end of the year (FIFA, 2010, Article 10.4, F.02, F.03). This is to ensure that clubs do not fold-up during the course of the season, which could jeopardise the integrity of the league and also endanger the confidence of the public in the financial infrastructure of the clubs.

Clubs are expected to submit their annual audited financial statements (as detailed in Appendices 12-14) for review by the FFC. The FFC Board is required to review the financial statements of clubs to ensure that they conform to set standards (section 7.7). These standards would include minimum reporting standards that conform to those required by FIFA, National Laws and professional bodies e.g. Institute of Chartered Accountants. In respect of Ghana this would include the requirements within the Companies Code (Act 179, 1963).

Appendix 12 shows the documents that are required to be submitted annually to the FFC Board for review which would serve as the basis for the award of the licence to compete in the league. Modifications to the content of the financial statements are expected to make them football specific (see section 7.3.4). Comparisons could then be made of financial performance across clubs and over time, something which is considered relevant, according to stakeholders of clubs. The Cash Flow and the Budget for time T, which are also required to be submitted, would help determine whether a club could continue as a going

concern, and thus be in a position to meet its financial commitments for the forthcoming football season.

Submission of player transfer agreements between clubs and player contracts detailing the financial conditions and the payment schedules allows for the detection of overdue debts to other clubs and players, as well as the full extent of a club's financial commitment for the licence year. Examples of this exist within the UEFA FFPRs (UEFA, 2010a). Loan agreements with financial institutions, the FA and its affiliates would also have to be submitted as and when necessary, with the FFC guaranteeing them as required. Clubs would also have to submit monthly evidence of timely payment of players and staff.

The FFC Board would also have to set the auditing formats and standards that club auditors would have to adopt (section 7.4.3 and 7.4.4). This would allow for comparability of the results from a club's financial statements with that of other clubs, as well as comparability over time; one of the key principles upon which the quality of financial reporting is judged (Sarpong, 1999; Saudagaran and Diga, 1997). They would also ensure that club auditors who do not conform to these standards, or are found to have colluded with club officials to submit fraudulent documents, are barred from auditing the accounts of football clubs. It is also important that only qualified auditors are allowed to audit the books of football clubs as this could not be taken for granted.

Based on the financial data provided by the clubs to the FFC as part of the licensing process, and with the right skill levels, the FFC Board would then be in a position to assess both the short-term and the long-term financial

sustainability of the clubs by using various financial indicators, and to determine whether they could continue as going-concerns.

### **8.5.2 Incentives for Compliance**

Despite the suggestions by Fehr and Falk (2002) that monetary incentives may be counter-productive and reduce the performance of agents or their compliance with rules, clubs argued that considering the harsh financial environment within which Ghanaian clubs operate (sections 1.1.5 and 5.5), any incentive package that improves access to funding would positively affect their motivational posture (Baldwin and Black, 2008; Feld and Frey; 2007). Hence, it is important for the FFC Board to be seen to be helping to improve the financial environment facing the clubs by ensuring that they have regulated access to funding; currently a major constraint on the financial management of the clubs (see section 7.5.2.1). This would engender the necessary trust between the regulator and the regulated and increase the likelihood of regulatory compliance by the football clubs.

This would not necessarily lead to the regulator substituting the public interest objectives (ensuring the integrity and financial stability of the league) for those of the industry (clubs) – essentially a risk of regulatory capture (Becker, 1983) - as there are other in-built structures to avoid this (see section 6.3.2). In order to ease the financial constraints facing the clubs the Board would have to coordinate the player transfer payment; provide guarantees for short term credit for clubs; and coordinate access to funding from the ‘Youth and Infrastructure Development Fund’.

### Player Transfer Payment System

An uncoordinated player transfer payment system encourages clubs to build up unsustainable debts as they compete to buy players in a 'rat-race' fashion without the necessary resources (Akerloff, 1970) (see section 7.5.1). When clubs default on the payment of player transfer money, they deprive the selling club of both the use of the player in question and any opportunity to replace those players, thus weakening the selling club. This limits the competitiveness of the league especially if the two clubs are in the same division. Indeed it is possible that big clubs may intentionally weaken smaller ones by defaulting on payments so as to win titles, akin to financial doping (Hamil and Walters, 2010).

Regulating the player transfer payments system would be done through a review of the transfer agreements between the clubs to ensure that the buying club has the ability to honour its transfer obligations when due. This would be determined by a review of the financial statements, budgets and the cash flow statements submitted by the buying club during the license application process. Where the buying club seeks to use their share of the League sponsorship and Media Rights revenue as a guarantee for the purchase of the player, the FFC Board would ensure that such monies are paid directly by the FA to the beneficiary club.

Without coordination some clubs over-collateralise their expected share of the rights revenue, leading to the inability of the FA to make payments to all clubs who are owed monies by such a club (see section 7.4.3.1). The FA cannot determine which portions of the debt owed to each club should be paid off since

it has no capacity or locus to rank the debts in terms of priority. Coordination by the FFC Board, however, would provide a framework to ensure that clubs cannot over-collateralise their share, as transfer agreements that require the use of rights revenue as guarantee would have to be approved by the FFC Board.

The FFC framework is likely to ensure that clubs have the financial resources to honour the terms of the contracts that they sign with players at the beginning of the season. Clubs in Ghana have a history of signing players on very lucrative terms even when they do not possess the financial resources to pay. The FIFA CLR guidelines expect that clubs will not have any overdue payments at the end of the year, and this would be a responsibility of the FFC Board to regulate. Where a club continuously fail to honour its obligations to its playing staff, the FFC Board has the power to impose transfer bans over a certain period in which the club cannot buy any new players until certain financial guarantees are provided. Bans are a part of a wide-range of deterrent strategies that could be provided to ensure regulatory compliance (Ayres & Braithwaite, 1992; Baldwin & Anderson, 2002; Braithwaite, 2002; Simpson, 2002). The procedural rules for the CFCB of UEFA also suggest other forms of punishment to ensure regulatory compliance (UEFA, 2012b, Article 21) that could be adopted by the FFC Board.

### Access to Private Funding

In order to improve access to credit by clubs, the FFC Board with its ability to assess the risk profile of each club, would be in a position to guarantee the repayment of short term loans contracted by some clubs from financial institutions, the Football Association, GHALCA and the hire-purchase agreements with equipment suppliers. The financial data from the clubs that are reviewed by the FFC Board during the licensing process would be readily available to financial institutions, improving the probability of the financial institutions providing credit to clubs to ease their short term cash-flow challenges.

The quality of financial data supplied to the financial institutions during the loan application process would have to meet the standards set by the FFC Board for purposes of licensing. It is anticipated that creditors would also be more likely to do business with clubs due to the improved integrity of the football financial system arising out of the financial licensing system and the independence and professionalism of the regulators (see section 7.7). This would reduce the transaction costs associated with the credit acquisition process as it would reduce information asymmetry and has the potential of reducing the risk of default, the default premium charged by financial institutions as part of cost of credit, and as such reduce the cost of credit. This is a key principle in the regulation of financial services outlined by Llewellyn (1999).

### Access to Government Funding

The role of Government in the development of football in a resource-constrained economy is critical as it is needed to provide the financial

infrastructure in an environment in which clubs are unable to sufficiently provide for themselves. Even in Europe where clubs in many countries are very well-resourced in financial terms, governments continue to support clubs in both their youth development and infrastructure development efforts (see section 7.4.2). For example, the French government considers participation in sports and physical education as crucial elements in education, culture, integration and social life of the citizenry and hence a right for every citizen, (Senaux, 2011). As such, the state and local authorities provide sponsorship to clubs in exchange for match tickets which are distributed to youngsters and people from the localities who represent 15% of fans at matches. Elsewhere, Swiss clubs also enjoy the usage of stadia modernised by the government as part of its efforts to win the hosting rights for Euro 2008 (Mutter and Huber, 2011); whilst Dutch clubs receive loans, warranties and reductions in stadium rent and maintenance costs from state and local authorities (Pieters and De Schryver, 2011).

The FFC Board is responsible for coordinating access to funding from the 'Youth and Infrastructure Development Fund', funded by government for investment in Youth and Infrastructure development by the clubs (see section 7.4.2). Government has a responsibility to provide opportunities for youth; whilst football clubs provide training and career opportunities for the youth as a complement to government efforts. The coordination and monitoring activities of the FFC Board would provide Government with the necessary assurance that the resources provided would be used for their intended purposes, as annual reports on such projects would be made available to government through the Board's reporting framework. The FFC Board would also monitor

the repayment of loans made out of the Fund to clubs for youth and infrastructure development. This provides an incentive for clubs to undertake the improvement of their training and development infrastructure for the youth, which is required of them under the FIFA CLR's.

### **8.5.3 Providing Support Services to Clubs**

The licensing and monitoring process, which includes a review of the financial management systems of clubs, would result in recommendations made by the FFC Board in respect of the proper financial planning, control and management of clubs. This would allow the FFC to provide feedback to the clubs. The interactions between the FFC and the clubs would ensure that clubs benefit from the suggestions from members of the Board in a process of learning-by-association (Rusaw, 1995) (also see section 7.7).

Regulation becomes irrelevant if the intended targets cannot appreciate what the regulation requires them to do and how to do it. In as much as the clubs would strive to appoint suitably qualified people to be responsible for the financial management of their clubs in order to meet reporting requirements, it is important for the regulatory system to be seen to be improving the quality of the personnel responsible for the clubs' finances (see Section 7.5.1). Club officials would be offered training in financial planning, budgeting, financial analysis and issues of taxation in a program of continual education to improve standards.

The quality of the FFC Board's composition means that they are in a position to advocate rule changes within the football industry, as well as outside the

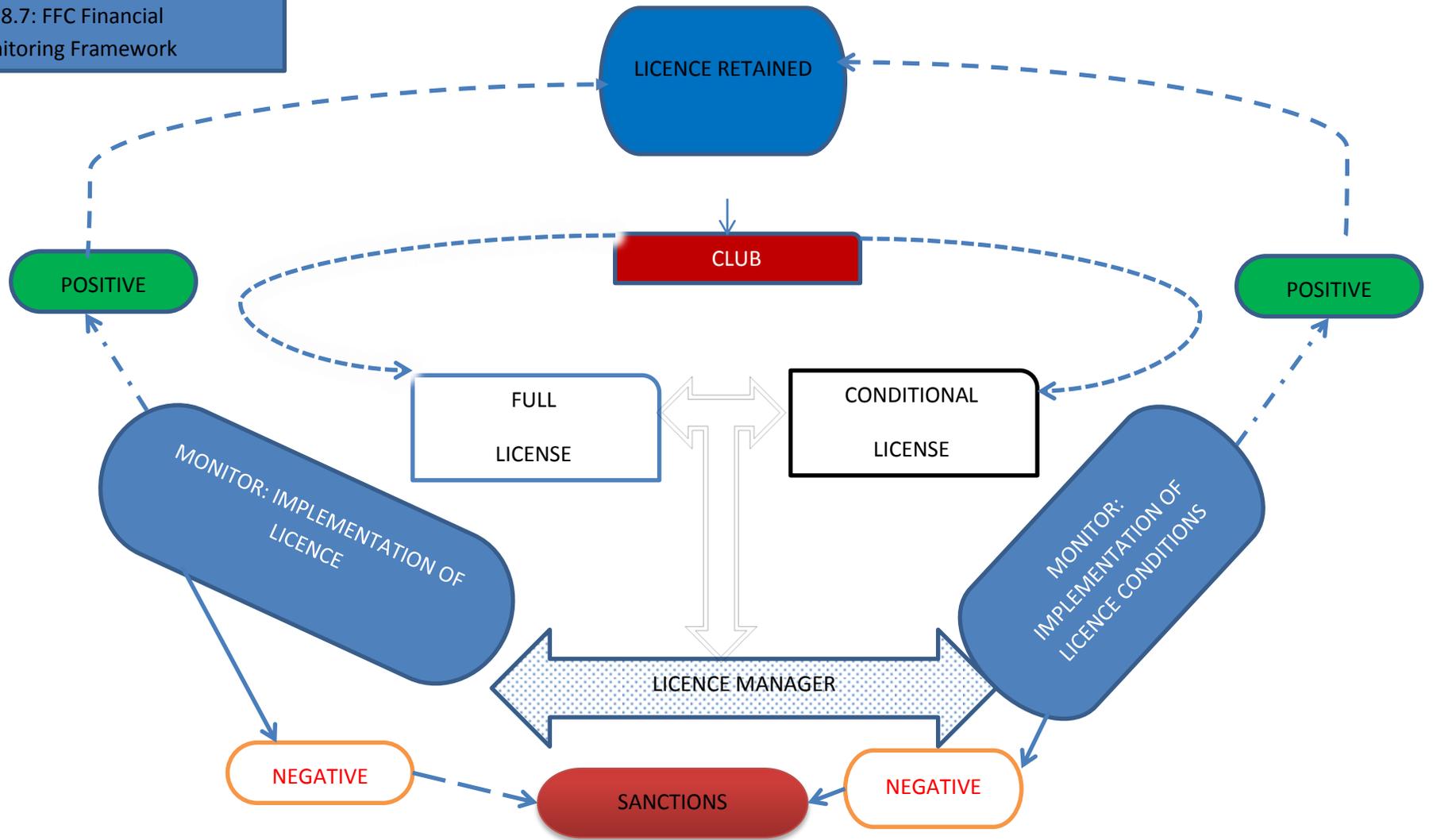
industry, for the benefit of the game. The Board could, for instance, suggest changes to the revenue distribution formula to ensure improved financial and sporting performance for majority of the clubs, and as such the level of competition in the league. They could also serve as an advocacy group on behalf of clubs to lobby government to, not only provide tax exemptions to operators in the football industry, but to provide direct financial support for club football. Due to their independence from the Football Association, Government is more likely to take them seriously in their advocacy effort.

#### **8.5.4 Monitoring the Financial Activities of Clubs**

Figure 8.7 is the financial monitoring framework of the FFC. The processes of monitoring the financial activities of the clubs have been comprehensively discussed in section 6.5.4.

The FFC would be responsible for the monitoring of the financial management systems of the clubs and the implementation of the financial license conditions. The FFC would engage the clubs in a continual process of documentation review over an agreed period during the licence year to ensure that licence conditions are being respected by clubs. The authenticity of clubs audited accounts could also be verified by spot checks done by officers of the FFC. Clubs are obliged by the regulations to open up to recognised officers of the FFC whenever they are called to do so. Failure to do so attract sanctions which may be pecuniary and this would also be taken into account when the club applies for a license the following year.

FIG. 8.7: FFC Financial Monitoring Framework



## **8.6 SUMMARY**

This chapter discussed the modified FFC framework as the key result of this study. It outlined the key aspects of the FFC framework which has been made applicable to the Ghanaian context.

The main objectives of the framework are to: foster industry development and investment; promote more equitable outcomes; ensure safe and quality service; achieve desired levels of income; and to promote least cost production within the Ghanaian football industry. This is to be achieved by providing for the financial licensing and monitoring of clubs, supported by the provision of incentives and support services.

## CHAPTER IX

### CONCLUSIONS AND IMPLICATIONS OF THE STUDY

#### 9.1 INTRODUCTION

The fundamental aim of the study was to critically review the framework for the financial regulation of professional football in Ghana and, if necessary, propose an appropriate framework specific to the context of Ghana.

The following objectives were identified to achieve this aim:

1. To critically appraise and evaluate existing frameworks of financial regulation in football and assess their applicability in the Ghanaian context;
2. To evaluate the current financial disclosure practices of Ghanaian professional football clubs;
3. To evaluate the financial position and performance of Ghanaian professional football clubs, and assess whether they are financially sustainable entities;
4. To evaluate the existing framework for regulating the finances of Ghanaian clubs; and
5. To develop an incentive-based financial regulatory framework applicable to the Ghanaian context

The study's fundamental aim has been achieved, as the FFC framework has been developed, reviewed with stakeholders and made applicable to the

Ghanaian context through its interrogation by stakeholders in Ghanaian football. Section 9.2 sets out the contributions of this study to knowledge. Section 9.3 shows how the research objectives were achieved and the conclusions drawn. Section 9.4 then draws out the implications of the study for: the Ghana Football Association and its member clubs; Government and agencies of Government that serve as complementary control institutions; world and continental governing bodies such as FIFA and CAF; investors and other stakeholders of Ghanaian football; researchers and directions for future research. Section 9.5 is a summary of the chapter.

## **9.2 OVERALL CONTRIBUTIONS**

This thesis makes four significant contributions to knowledge by showing that: Ghanaian football clubs are in a difficult financial situation; there is an appetite for change amongst Ghanaian football's stakeholders for a new financial regulatory framework; the existing financial regulatory frameworks, especially in Europe, are not applicable in the Ghanaian context, especially as their underlying assumptions are based on a different jurisdiction; and that the FFC framework would be an appropriate context-specific framework to deal with the financial regulation of Ghanaian football clubs.

Firstly, the study has shown that the finances of Ghanaian football clubs are in a mess, and there is therefore an urgent need to do something about them. Ignoring these challenges has the potential to threaten the financial stability of the clubs, and in the long run, the credibility and survival of Ghanaian league football. One of the possible ways to deal with challenges to the financial

stability of clubs is the improvement in the financial regulatory environment pertaining in the industry.

The study has also shown that there is recognition by the stakeholders in Ghanaian football, including the clubs, that the weaknesses in the existing financial regulatory framework threaten the survival of the clubs and the league. For example, the stakeholders admit that the financial disclosure practices of the clubs need to be improved. There is therefore an apparent appetite for a review of the financial regulatory framework.

Thirdly, the study has shown that existing frameworks developed in other jurisdiction, whilst serving as a guide for others; do not necessarily pass as an applicable framework to deal with the specific challenges facing Ghanaian football clubs. The review of the UEFA CL and FFP regulations, as well as FIFA's own attempt to provide guidelines to national associations have shown them to be inadequate for a national association with its own peculiar financial challenges, as in Ghana.

In view of the above, the study's fourth contribution is a model of financial regulation which is applicable in Ghana, and which has the potential to resolve the specific financial challenges facing Ghanaian football clubs. The FFC framework incorporates into its design, the specific industry and institutional factors pertaining in Ghana football. The model has also been interrogated by stakeholders in Ghanaian football who overwhelmingly believe it holds the key to dealing with the financial challenges in Ghana football.

The study is the result of an independent and original attempt to analyse financial regulation in Ghanaian football. The study is the first of its kind in

Ghana on football finance, football financial reporting and financial regulation in football. It is the first study to publish financial figures on Ghanaian football clubs which hitherto have not been made available by the clubs and governing bodies. While the sports finance and sport management literature is replete with papers analysing financial aspects of, primarily European and American football leagues, no known academic studies have focused on data from African market economies. Given the importance of professional football and the importance of the emerging Ghanaian football economy, this review provides an original and significant contribution to knowledge in the area of football finance.

This work therefore, makes an important contribution in, for the first time, providing stakeholders of Ghana football with the necessary information for policy formulation around the key areas of financial management and financial regulation. While the thesis is focused on a particular area of economic activity, more generally, the thesis also contributes to the growing literature on football's financial management and financial performance within developing economies. This allows for the comparison of financial performance of football clubs in different jurisdictions to be made.

The review and analysis of existing financial regulatory frameworks in football worldwide provides regulators with the basis upon which to make informed assessments as to whether world-wide general regulations such as the FIFA Club Licensing regulations could be effective in meeting the specific needs of different countries. FIFA's attempt to provide guidelines for all national associations fails to appreciate the institutional differences, and even cultural differences that inevitably exist in football around the world. Specifically, the

study greatly enhances independent analysis of the FIFA licensing regulations; to date, the great majority of literature in sports finance and sport management has focused on the UEFA Club Licensing and Financial Fair Play regulations.

Another contribution of this study is the detailing out of the systematic steps undertaken to arrive at the FFC framework, which is the final outcome of the study. The study utilises the review of the theoretical literature to justify the selection of the Sappington Model as the conceptual framework for the review of the existing frameworks for the financial regulation of football. It also serves as the framework for the development of the FFC Model at the conceptual level. The review of the existing frameworks of financial regulation is then combined with the review of Ghanaian football finance to provide the justification for, the industry conditions and the institutional environment within which the FFC framework is developed. This framework is then interrogated with the help of stakeholders of Ghanaian professional football and the results are used to modify the framework into one that is applicable in the specific context of Ghana. This very academic process of model development, to a large extent, allows for replication of the conclusions of the study in other jurisdictions.

The study also extends Sappington's framework by including financial and physical resources in the definition of resources. These are critical in the development of any regulatory framework especially in resource constrained environments.

### **9.3 CONCLUSIONS**

The fundamental aim of the study was to critically review the framework for the financial regulation of professional football in Ghana and, if necessary, propose an appropriate framework specific to the context of Ghana.

The review of literature, the critical review of the existing football financial regulatory models, and the review of Ghanaian football finance served as the basis for the development of the Football Financial Clearinghouse model at the conceptual level. This first phase was followed by an interrogation process that involved presenting the framework during interviews with club CEOs, FA and League officials and obtaining their responses. The third phase utilised the results of the consultations with the stakeholders as the basis for modification of the framework, in the process achieving objective five of the study.

The FFC framework recognises the fundamental importance of the institutional environment within which the regulator and the clubs operate (Sappington, 1994; Rodrik, 2000; Baldwin and Black, 2008); the effect of the human resource limitations on the ability of the regulator to achieve its objectives (Sappington, 1994); and the effect of inappropriate incentive mechanisms, absence of control within the clubs, and deficient information systems on the operational performance mix of the clubs and the FA (Bayle and Robinson, 2007).

The FFC framework received overwhelming support amongst the stakeholders in Ghanaian football leading to the conclusion that such a framework may provide a solution to some of the regulatory and financial challenges faced by

Ghanaian football. The incorporation of incentives and support services into a financial licensing and monitoring framework provides ready-made solutions that could be implemented relatively easily by the Ghana FA. While context remains central to this study and to its proposed framework, similarities between Ghana and other African countries mean that a modified version of this framework may be of value elsewhere on the continent, with regulators able to explore which aspects of the framework best fit their needs (Hausmann and Rodrik, 2003).

Easing the financial constraints that face clubs is therefore expected to be a key feature of any financial regulatory framework implemented for Ghanaian football. Access to credit from financial institutions is a major challenge for Ghanaian clubs due to their inability to provide sufficient collateral guarantee resulting from their low asset base, and the high cost of credit in the country. The high cost of credit not only makes Government funding an extremely attractive alternative, but it also makes schemes such as the provision of guarantees by the FA to banks on behalf of the clubs, and the rationalisation of the transfer payment system proposed under the FFC framework, very important.

The discussions that follow details out the conclusions of the study on the other research objectives, which justified the development of the FFC framework as an incentive-based financial regulatory framework for Ghanaian football.

### **9.3.1 Financial Disclosure in Ghanaian Football**

The first research objective was achieved by analysing the contents of audited financial statements of clubs in Ghana's Premier League as at 1<sup>st</sup> September, 2012. Various financial statements covering the period 2009-2012 were analysed. The evaluation was based on the credibility of the submitted financial statements; the contents of the accounts; the consistency of accounting carried out by the clubs; and the comparability of the accounting data in respect of the existence of prior year figures, treatment of player recruitment cost and asset depreciation practices. Club, FA, PLB and GHALCA officials were also interviewed on the quality of financial disclosure in Ghanaian football.

The study concludes that considerable information disclosure challenges exist in professional football in Ghana, just as they do in the Ghanaian capital markets (Sarpong, 1999). The credibility of audited accounts cannot be guaranteed, and there is little feedback on the submitted accounts to the clubs from the FA, giving the impression that the financial disclosure process is largely a cosmetic exercise.

There is a lack of comparability of club accounts from one year to another as clubs change auditors and auditing formats without providing the basis, in contravention of the requirements in the Ghana Companies Code (Act 179, 1963). There is also a general lack of comparability of accounts across clubs as different clubs have different accounting policies and treatments in respect of the depreciation, revaluation and impairment of assets, and treatment of player recruitment costs. Some of the financial statements (income and expenditure

accounts, balance sheets, and cash flow statements) provide very little by way of detailed financial disclosure.

More worryingly, however, the evidence in this study indicates that in the case of Ghanaian football, the disclosure challenges are exacerbated due to a lack of validity in the opinions expressed by some club auditors. The available evidence suggests a degree of capture or proximity between auditor and clubs, with several examples of accounts being signed off as meeting the disclosure requirements despite patently failing so to do (Laffont and Tirole, 1993). Clubs admit to submitting incorrect accounts to the FA, even though they have been passed by auditors to represent the true and fair state of the finances of the clubs. Some clubs submit the same audited accounts to the FA year after year by just changing the information on the cover. In most cases, this would be interpreted as a sign of an inadequate monitoring and enforcement framework.

This study also concludes that even where clubs submit validly audited financial statements, there is a lack of capacity within the FA and the PLB to review the accounts to generate feedback for the clubs, limiting the operational performance of the FA (Bayle and Robinson, 2007). In combination with the use of a general deterrence approach by the FA to achieve regulatory compliance, the lack of feedback has obviously generated a 'ticking-of-the-boxes mentality' amongst the clubs, who therefore submit the accounts in order to achieve legitimacy and obtain a license to play in the league (McBarnet and Whelan, 1991; Morrow, 2006; Simpson; 2002).

### **9.3.2 Financial Sustainability of Ghanaian Clubs**

The second research objective was achieved by analysing the financial performance and position of football clubs in Ghana's Premier League obtained from published financial statements which hitherto had remained inaccessible. The review covered the period 2010-2012.

The low and declining level of revenue obtained by Ghanaian clubs, as evidenced in the study, is in contrast to the experience in the major European countries like England where increasing media rights have resulted in greatly increased revenue for clubs (see, for example, Walters & Hamil, 2013; Morrow, 2011; 2006). One cause of the low income levels in Ghana might be low attendances, caused in part by the migration of playing talent abroad leading to an apparent diminution in the quality of competition (Darby, 2010). Other contributing factors include a lack of proper marketing of the league by the FA and the pervasiveness of televised foreign league games. Weaknesses also exist in the operation of the player transfer payment system as clubs over-collateralize their share of the league rights revenue resulting in debts remaining unpaid well beyond the agreed payment period.

The fall in revenue and the accompanying increase in expenditure have resulted in Ghanaian clubs making losses on an annual basis. It is a generally accepted view that most football clubs around the world make losses on a consistent basis (Franck and Lang, 2013). Moreover, the existence of operating losses do not necessarily show financial crisis (Lago, Simmons and Symanski, 2006). However, the causes of the imbalance between income and expenditure in Ghana and Europe are markedly different, and thus require different

solutions. For example, while the percentage contribution of match revenue within total revenue is on the decline in Ghana, similar to recent experience in some European countries, the decline in this ratio in Europe could be interpreted positively as attributable to an increase in media rights revenue, something which is patently not the case in Ghana. In Ghana, therefore, the challenge is escalating costs in the midst of dwindling/static income.

The majority of Ghanaian clubs are technically bankrupt and are only sustained by benefactor-owners who underwrite the debts of the clubs, just as happens in Europe (Lago and Franck, 2013). While in Europe, FFP seeks to limit ex post financial contributions from these so-called benefactor owners, in contrast there is little evidence to support any call to limit the influence of such investors in Ghanaian football since clubs are to a large extent dependent on this source of finance. Thus whilst funding from this type of investors in Europe may be a major contributory factor to financial instability in European football (Lago and Franck, 2013, Lindholm, 2011; Geey, 2011), in stark contrast, it may ultimately be the basis of survival for Ghanaian clubs.

The asset base of the clubs is also very low meaning that the clubs lack adequate collateral to convince financial institutions to provide short and long-term funding to the clubs. Thus the combination of lack of collateral, the high cost of credit, poor financial performance of clubs and a weak financial position makes funding from financial institutions not a viable option for most Ghanaian league clubs.

The alternative sources of income such as gate revenue, sponsorship and player sales are just as volatile as funding from owners and directors, if not

more so. Thus the lack of viable alternative sources of revenue would seem to suggest that clubs do not have a choice but to rely on the magnanimity of rich directors and owners, even with its associated risks. However, the debt profile of Ghanaian clubs is such that if the Directors, who in most cases are the owners of such debt, decide to recall their loans to the clubs these clubs would not be able to repay their loans within a reasonable time period.

The financial analysis undertaken also shows that the pursuit of sporting success internationally, by Ghanaian clubs challenges their financial stability, leading in particular to an of accumulation of debt, similar to the case in some European countries (Gammelsaeter and Senaux, 2011; Hamil and Chadwick, 2010; Lago et al, 2006; Walter and Hamil, 2010; ). While UEFA's Europe wide club competitions are seen as both the pinnacle of football achievement and important revenue sources, this study indicates that Ghanaian clubs often do not find the CAF inter-club competitions, especially the qualification rounds, as financially-viable and hence attractive business opportunities.

### **9.3.3 Lessons from Existing Regulatory Frameworks**

The third research objective of this study was achieved by employing Sappington's principles of regulatory policy design, which is the conceptual framework for this study, as the basis for the evaluation of FIFA's Club Licensing regulations, the UEFA Club Licensing and Financial Fair Play Regulations, and the Scottish Club Licensing regulations. The objective of the review was to provide useful lessons for the development of a context-specific financial regulatory framework for professional football in Ghana.

Key conclusions that are drawn from the review of the existing frameworks are that it is essential that: the objectives of the regulatory framework are clearly defined; the regulatory design process takes into consideration the resources of the regulator; the independence of the regulatory body be guaranteed; and the quality of the complementary control institutions are ensured. This is because these are important factors that determine the scope and the form that regulation takes.

Whilst the resources would determine the most effective regulatory enforcement instrument to be utilized, the independence of the regulator is achieved through: the quality of personnel appointed to serve on the board of the regulator; the mode of selection of the membership; and the security of tenure of the membership of the regulatory board. The review also shows that a regulatory framework could combine aspects of both command-and-control and an incentive-based delegated decision-making approaches to regulatory design. This would thus justify the introduction of a regulatory body that ensures that financial licensing and monitoring are complemented by incentives such as access to credit and the provision of support services to clubs.

The review also provides strong support for the need to recognise the necessity of the institutional context within which regulations are developed, as argued for by writers such as Rodrik (2000) and Baldwin and Black (2008). The inclusion in the UEFA FFPR (UEFA, 2012a) of a rolling break-even measure, definitions of relevant income and relevant cost, and limits on contributions by equity holders in the clubs is explicit recognition of the financial peculiarities, of

European football; that is to say its institutional context (Deloitte, 2011; Geey, 2011, Flanagan, 2013). For instance, the process of arriving at those regulations involved extensive consultations with key stakeholders in European football, in order to find a European solution to a European problem. It also recognised the possible conflict between the FFPRs and the EU anti-competitive regulations (Bell, 2011).

The general conclusion from this review is that the development of the FFC framework has to be greatly influenced by the context of Ghanaian football. The review of Ghanaian football finance, the review of the governance systems in Ghanaian football, and the discussions on the challenges to financial management of football clubs are all, thus, necessary steps to understanding the context within which to develop a modified FFC framework.

#### **9.3.4 Quality of Existing Financial Regulatory Framework in Ghana**

The fourth research objective of the study was also achieved through interviews with stakeholders of professional club football in Ghana. These took place with CEOs or their representatives of all the 16 Premier league clubs as at 1st September, 2012, and the President of the FA, the Chairman of the League, and the Executives of the welfare body of the league clubs (GHALCA).

There is a widespread acceptance amongst the stakeholders of Ghanaian football that the quality of financial regulation in professional football in Ghana is inadequate. As discussed earlier, the few pieces of legislation on the FA's books are either not enforced or not properly communicated to the clubs. Stakeholders also believe that the FA and the PLB do not have the internal

capacity to adequately enforce the regulations. The lack of capacity is either as a result of the FA leadership failing to appoint the people with the professional knowledge and expertise to serve on the Board, or failing to attract the right calibre of expertise, based on the remuneration structure which could inhibit the operational performance mix of the FA (Bayle and Robinson, 2007)

The study also finds support for the assertion by Morrow (2011) that incorporation of a club does not guarantee improved financial success or improvements in its financial management practices. The legislated incorporation of Ghanaian clubs in 1993 has done little to improve financial disclosure of clubs, the financial management practices of the clubs, or financial performance of the clubs (as discussed in sections 10.1.1 and 10.1.2).

However, there is enthusiasm amongst the stakeholders of Ghanaian football for the introduction of a financial licensing scheme along the lines introduced by FIFA, and incorporated into the FFC framework. They believe that there are rationales for regulating the financial aspects of football, not only in the public interest, but also in the interest of the private clubs themselves.

## **9.4 IMPLICATIONS OF THE STUDY**

The general implication of the conclusions drawn from the study is that the FFC framework, which has been developed with the peculiar context of Ghanaian professional football in mind, is needed to streamline the financial management of clubs in the country. The clubs need to be licensed and their financial activities monitored, whilst they are provided with financial incentives and support services to encourage compliance with licensing regulations.

### **9.4.1 Implications for the Football Association and its Clubs**

Serious financial disclosure challenges exist in Ghanaian football. More worryingly, these challenges have persisted, sometimes ostensibly with the active involvement of club auditors; individuals who are expected to exhibit the highest levels of professionalism and integrity. This has serious implications for football's regulators, such as the FA, which utilises the audited financial statements of clubs as a basis for making decisions on clubs' financial health and viability. However, the implications extend beyond the impact on, and for any one club.

A key role of financial statements is to provide comfort to football governing bodies and leagues in terms of the credibility and sustainability of their competitions. For example, the use of audited financial statements by football governing bodies like UEFA for financial licensing purposes, and as the basis for determining a club's conformity to break-even conditions under the Financial Fair Play Regulations (Flanagan, 2013; Bell, 2011; Lindholm, 2011; Geey, 2011), would be seriously undermined if the opinions expressed by club auditors cannot be accepted on face value.

The study also concludes that the attempt by the FA to legislate for incorporation of the clubs and submission of financial statements, to help improve their financial management practices has achieved little success. This implies that achieving regulatory compliance is likely to require much more than the specification of regulatory benchmarks and the adoption of deterrence strategies (Gunningham, 2010). In particular the use of incentives are likely to be required (Baldwin and Black, 2008; Feld and Frey, 2007), as well as the provision of support services to help develop capacity. The national federations and the clubs would also have to invest in human capacity building of their own to ensure the easy adoption of good corporate governance and financial management practices, and improve on professionalism.

One of the key conclusions of this study is that regulation cannot be developed without taking cognisance of the context within which it is to operate. The Ghana FA, thus, needs to appreciate that whilst utilising the FIFA CLR (FIFA, 2010) as a guideline to develop its own licensing scheme is not inappropriate, financial regulatory reform must extend beyond merely adopting a framework that has been developed around football in other continents and contexts. It must take cognisance of the Ghana-specific challenges facing its clubs in developing its framework and incorporate appropriate incentives to achieve compliance (Feld and Frey, 2007).

This is the opportune time for the Ghana FA to engage in a more comprehensive review of its financial regulatory framework, rather than a dogmatic acceptance and wholesale adoption of the FIFA guidelines into its statutes. Given the stakeholder views expressed, it could be argued that the FA has an opportunity to engage in 'really responsive regulation' (Baldwin and

Black, 2008), in which it would be responding to changes in its regulatory objectives and priorities in light of FIFA's orders and its changing circumstances, as a result of the peculiar challenges faced by its clubs. This then justifies the study's objective of developing a financial regulatory framework which is context-specific and which is applicable in Ghana.

The review also showed that clearly defined regulatory objectives are critical to the successful implementation of a set of regulations. The UEFA CLR & FFFPR (UEFA, 2012a) and the SFA's licensing regulations all have clearly defined objectives and an implementation framework. These provide examples for the Ghana FA in its attempt to develop a financial regulatory framework for its domestic leagues. For instance the Scottish FA has extended licensing to all levels of the game, something which could be used as a template by the Ghana FA over the medium to long-term.

In the long-term it is important that financial regulation of clubs by the Ghana FA acts to encourage clubs to diversify their sources of income. The FA would have to work with government and financial institutions in the country to work out feasible funding schemes that allow clubs to execute not only their sporting objectives, but also support government in its youth and infrastructure development agenda. It in turn is important for the clubs' own long term survival.

Considering the enthusiasm with which stakeholders in Ghana's professional football embraced the tenets of the FFC framework, it is not surprising that there is an obvious pathway to impact. The Ghana Football Association has begun the process of developing its own licensing framework which

incorporates key elements of the FFC framework. Thus the FFC framework has found practical use in Ghanaian football and may well serve as an example for other African countries as CAF begins to check the implementation of its licensing regulations across the continent.

#### **9.4.2 Implications for FIFA/CAF**

The conclusions drawn from this study demonstrate emphatically that football regulators such as CAF and FIFA cannot adopt a one-shoe-fit-all approach that ignores the institutional context within which both the regulator and the regulated entities operate, without encountering serious implementation challenges. While context remains central to this study and to its proposed framework, similarities between Ghana and other African countries mean that a modified version of this framework may be of value elsewhere on the continent.

Another implication of the study for the football governing bodies is that whilst UEFA could conveniently use participation in the UEFA Champions League as incentive to encourage clubs to conform to financial licensing conditions, CAF/GFA should look for alternative incentives for Ghanaian clubs to achieve regulatory compliance. It is important that CAF conducts an assessment of the attractiveness of its competitions to inform change in its performance reward system.

The study also implies that there is a crucial role for capacity building programs, not only at the club level, but also at federation level. FIFA's capacity building management and administration programs for professional football have been mainly targeted at club officials. However, the study shows that the national

federations may be as limited in human resource capacity as the clubs, and as such they may also require the training that is occasionally offered the clubs.

#### **9.4.3 Implications for Government and its Agencies**

It has been argued that with help from Government, the CAF inter-club competitions could become financially viable pursuits. The study demonstrates widespread support among Ghanaian football's stakeholders for such government support, this being based on the notion of football being a public good, and on perceived external societal benefits arising out of the production processes of professional football clubs. Football could be utilised as a tool for helping to achieve Government policy targets on health, as the provision of sports infrastructure encourages increased mass participation in sports and exercise, which has well-known positive health implications. Support for clubs by Government would also be an extension of Governments youth development policy to cover a particular section of the youth with an identifiable skill.

There are also implications for government agencies such as the social insurance, tax, judiciary and company registration authorities. These organisations are key stakeholders which function as complementary control institutions (Sappington, 1994), and whose effectiveness in carrying out their functions in relation to football clubs affects the ability of football's regulators to effectively regulate the financial activities of clubs.

The migration of players, which has affected the quality of talents on display in the Ghanaian league, may be a function of the weaknesses in the general

Ghanaian economy which ensures that Ghanaian firms cannot compete with their rivals from other countries for the best employable talents. Thus any solution to the problem of migration from Ghana goes beyond football policy and requires a comprehensive national policy to deal with employment and wages in Ghana.

#### **9.4.4 Implications for Investors and Other Stakeholders of Clubs**

Just like the FA, investors, creditors, and other stakeholders of clubs utilise audited financial statements of clubs as a basis for forming judgements on clubs' financial health and viability. Financial institutions, potential investors and shareholders all use the information as the basis for determining the risk associated with giving out credit facilities to, or investing in a firm. An implication from the findings of this study is that such risk assessment may be based, in some instances, on manipulated or unreliable accounting figures, potentially jeopardising the investment of this group of stakeholders.

This highlights one of the challenges in operating meta-regulatory frameworks which involve self-regulatory bodies such as professional accountancy governing bodies, of which the Institute of Chartered Accountants of Ghana (ICAG) is a member. Their members are professionals, one definition of which is an ability to exercise judgement, with such professions and professionals being predicated on principles like integrity and honesty.

However, where evidence exists that some collude with club management to produce manipulated accounting figures, this could be considered as an attempt by club auditors to abuse the discretion afforded them. They are

exploiting their membership of a self-regulating body, to achieve their private individual interests, rather than public regulatory goals. The ICAG would thus have to improve on its monitoring of members' activities to ensure that the credibility of its licensing process is not brought into question.

#### **9.4.5 Implications for Researchers and Direction for Future Research**

The modified FFC framework provides researchers with an example of what a combination of theoretical reviews and engagement with the stakeholders could achieve in terms of a regulatory framework applicable in a specific context. The systematic steps utilised by this study to arrive at this model provide the basis for replication by other researchers for different contexts. The results of these replications may not be the same but would contribute empirically tested frameworks that work for a particular football context.

This study provides a basis for future research into the sustainability of Ghanaian professional football clubs utilizing a larger data set. The data on financial information on clubs utilized in this study covers a very short period, which does not allow for proper trend and regression analysis to be done. Future research utilising a set of panel data covering at least five years would allow for more vigorous assessment of the factors that affect the sustainability of Ghanaian clubs in the Premier division as well as at the lower levels. This would allow for cause-and-effect relationship between financial sustainability and the factors influencing its achievement to be established.

The role of televised local games on match attendance and televised foreign games on domestic game attendance needs to be critically assessed in the

Ghanaian context by the clubs, the FA and policy makers. This is to determine what policy, if any, is required to ensure that televised games do not become a negative influence on the ability of Ghanaian clubs to improve match attendance and ticket revenue. The FFC, through its policy advocacy role could influence policy in this direction.

The third area of future research would be the effect of quality of financial regulation on the investment decisions of club managers. Future research could focus on determining how changes in regulatory policy affect the financial decisions of clubs, and in effect on their financial performance and position.

## **9.5 SUMMARY**

This study has shown that Ghanaian professional football clubs face a difficult financial environment, and that their messy finances pose a danger to the long-term stability and integrity of the league. There is recognition amongst stakeholders that something has to be done to avert this possibility, with improved financial regulation being an option. There is also an appetite amongst the stakeholders for improved financial regulation of clubs.

This study has shown that examples of financial regulation that exist in Europe are not applicable in the Ghanaian context, necessitating the development of a country-specific financial regulatory framework for professional football in Ghana. The incentive-based Football Financial Clearinghouse (FFC) framework has been offered by this study as a workable solution to this challenge in Ghana.

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## APPENDIX

Appendix 1: Critique of Regulatory enforcement Models by Baldwin & Black (2008)				
Critique	Responsive Regulation	Smart Regulation	Risk-based Regulation	Regulatory Craft
Step-by-step escalation may be inappropriate	√	√	•	•
Potential to limit Voluntary Compliance	√	√	•	•
Relationship between regulator and regulatee may be compromised	√	√	•	•
Tit-for-tat strategy across board may be wasteful	√	√	•	•
Weak in dealing with complex and networked regulatory frameworks	√	√	•	•
Insufficient repeat interactions limit pyramidal strategies	√	√	•	•
Regulator may lack judicial, public, political or business support for escalation of punishment	√	√	•	•
Fairness, proportionality and consistency cannot be guaranteed	√	√	•	•
Information management, resource and time constraints	√	√	•	√
Coordination problems	•	√	•	√
Difficulty in prioritising risks	•	•	√	•
Determining risk tolerance levels	•	•	√	•
Focus on known and familiar risks	•	•	√	•
Substitutes widely spread risks for lower number of larger risks	•	•	√	•
Focus limited to individual firms	•	•	√	•
Assumes regulation can be parcelled into problems and projects	•	•	•	√
Source: Baldwin and Black (2008)				

## Appendix 2: CLUB INTERVIEW GUIDE (Part 1)

1. CLUB:
2. INTERVIEW DATE:
3. INTERVIEWER:
4. LOCATION:
5. START TIME:
6. END TIME:

**Ask for permission to set up audio recording of interview session.**

**Note: Start the session by introducing the Interviewer, providing the rationale for the overall study and the description of the Football Financial Clearinghouse Model and what it seeks to achieve:**

- Improve Financial environment facing clubs by ensuring regulated access to credit
- Serve as the first Instance Body in the Assessment of the Financial Criteria of the Club Licensing Regulations
- Provide Financial Advisory Services to clubs
- Provide financial monitoring of clubs

### **PART A: INTERVIEW SESSION 1**

Q1: Is there a need for financial regulation of football in Ghana?

Q2: Does the existing FA regulations serve as an adequate framework for regulating the financial management of clubs in Ghana?

### **PART B: PRESENTATION**

PowerPoint presentation of Football Financial Clearinghouse Model (30 minutes) proceeding as follows:

- Diagram A: Club Licensing Framework with FFC as First Instance Body for Financial Criteria
- Criteria Grading for Financial Criteria of Club Licensing
- Diagram B: Club Licensing Monitoring Framework
- Diagram C: Football Financial Clearinghouse Resource Flow
- Diagram D: FFC Monitoring of Members
- Diagram E: FFC Functional Framework

## Appendix 2: CLUB INTERVIEW GUIDE (Part 2)

### **PART C: INTERVIEW SESSION 2**

Q1: Based on the presentation above what would be your general impressions about the model?

Q2: Can Ghanaian clubs meet the criteria grading as explained in the presentation and what modifications, if any, would have to be made to the grading system?

Q3: What should be the implementation plan for the club licensing system?

Q4: Do you think that all the members as mentioned in the model are required to participate to achieve the objectives of the Framework?

Q5: Do you think that the FFC Board as set out in the Model can effectively

- coordinate player transfers?
- provide guarantee for short term credit?
- Coordinate access to funding from Government?

Q6: What is your assessment of the FFC Board's role in the club licensing process?

- Should it be given the power to review the financial statements of clubs?
- How do they ensure that clubs have no overdue payments?
- Can they make recommendations on the financial sustainability of clubs
- Should clubs failing to meet standards and failing the licensing process be barred from taking part in domestic and international club competitions?

Q7: Would your club require the FFC's services in the following ways:

- Provide advisory services in proper financial management and best practices in financial reporting?
- Arrange training programs for your staff on financial planning; budgeting, financial analysis, taxation etc.?
- Providing policy advocacy on taxation, government support for clubs etc.?

Q8: What is your overall evaluation of the Football Financial Clearinghouse Model?

The respondents would then be given the opportunity to ask the researcher any questions that they would like to ask for clarification. They would then be thanked for their participation.

### **Appendix 3: Participant Information Sheet**

#### **Dear Participant,**

I am a PhD candidate at the School of Sports at the University of Stirling, UK. I am writing a dissertation on the topic “Financial Regulation of Professional Football in Ghana”.

I seek to develop a framework of financial regulation which is incentive-based, football specific and has relevance for the Ghanaian context. The Football Financial Clearinghouse (FFC) is a regulatory framework which seeks to improve the financial environment within which Ghanaian football clubs operate by ensuring regulated access to credit; license football clubs for participation in both domestic and international inter-club competitions based on financial criteria; provide financial advisory services to clubs and monitor the implementation of financial regulations by professional clubs.

As a key stakeholder in the development of football in Ghana, your input would be greatly appreciated. Your assistance is being sought to provide answers to two sets of questions. This would take the form of an interview session or focus group meeting where appropriate, which would not take more than ninety (90) minutes. The first set relates to the financial environment within which Ghanaian clubs operate; the degree of transparency and accountability and how this affects their financial performance. The second set requires you to review the financial regulatory framework that has been developed and its relevance to the Ghanaian context. The documents you are expected to review include diagrams relating to the model and a Definition of Terms to assist you with understanding the model. I would answer all questions that you may have in order to fully understand the questions.

The interview and focus group discussions would be recorded using an audio recording device. You have a choice of determining if you are comfortable with the recording of the session. Once recorded however, I would make every effort to ensure that you remain anonymous. You are free to withdraw from the study or any part of the study at any time you wish. The findings from this study would be published as part of my PhD thesis. However, the information provided would be kept strictly confidential and no names or particulars of individuals or clubs would be used in the final report. Where necessary, only a pseudonym would be used to protect the anonymity of you or your organisation. Thank you for taking part in the research.

**ORGANISATION:**

**DATE:**

Appendix 4: Ethics Approval  
Certificate



UNIVERSITY OF  
**STIRLING**

Scotland's  
University for  
Sporting Excellence

Dr Angus Hunter  
Chairman of School of Sport Research Ethics Committee  
University of Stirling,  
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Mr Kwame Amoah Baah-Nuakoh  
School of Sport  
University of Stirling

10<sup>th</sup> August 2012

Dear Mr Baah-Nuakoh,

Following satisfactory responses to the committee, your application: "financial regulation of professional football clubs in Ghana" has now been approved by the School of Sport Research Ethics Committee and has been issued with the approval number #545.

We wish you the best of luck with the investigation.

Yours sincerely,

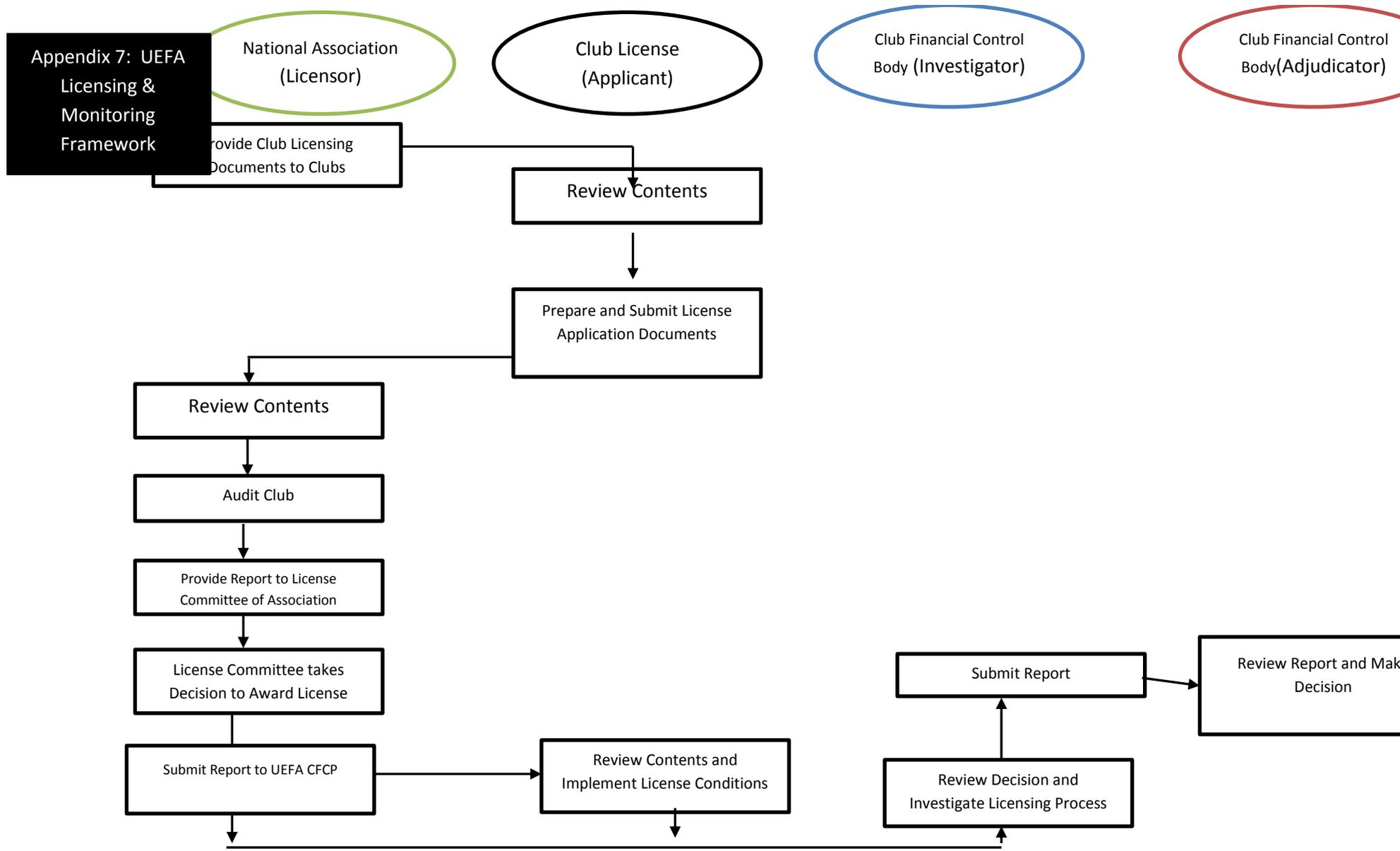
A handwritten signature in blue ink, appearing to read 'A. Hunter', with a long horizontal stroke extending to the left.

Dr Angus Hunter

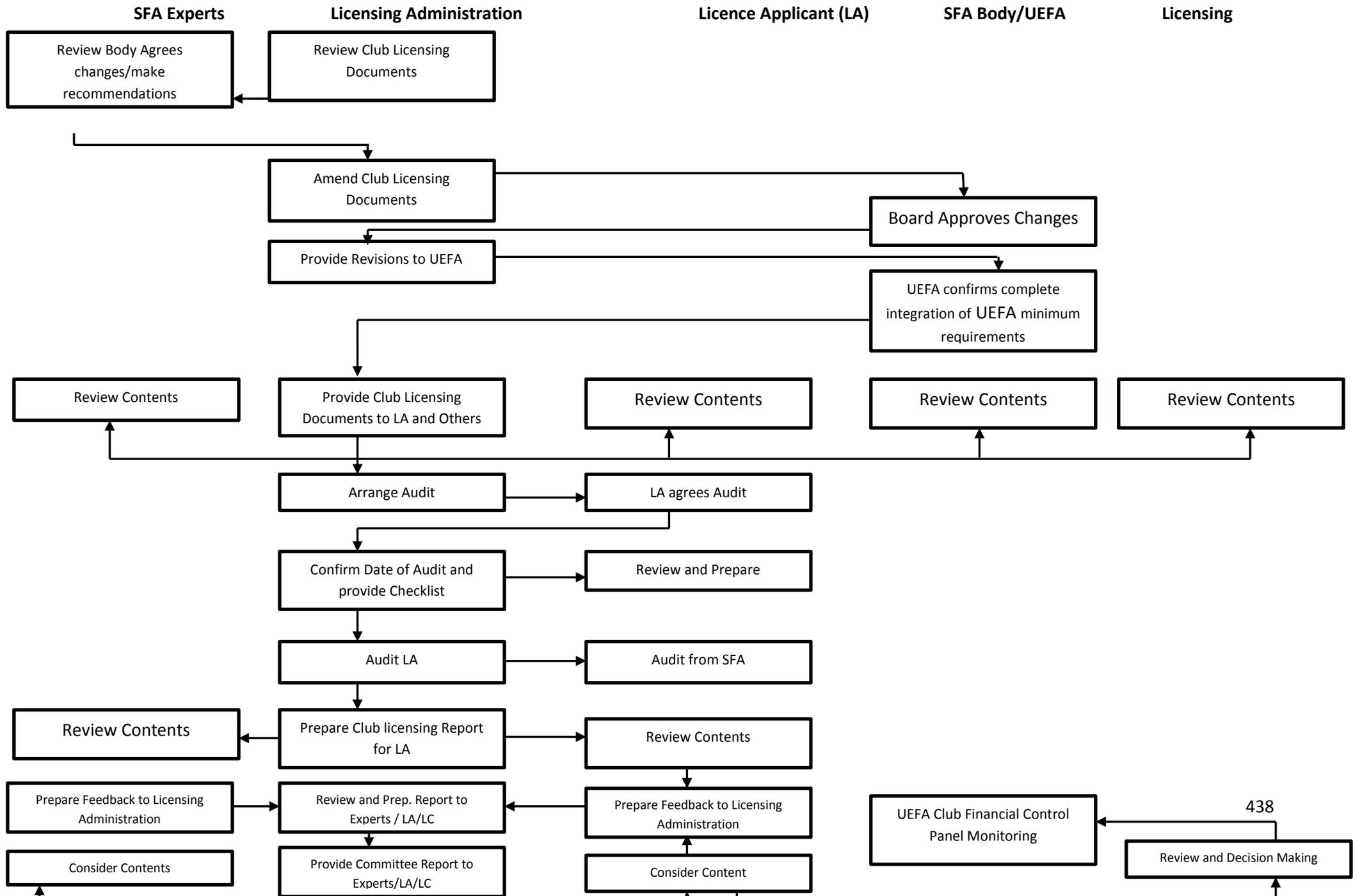


**Appendix 6: Composition of UEFA Football Club Control Panel, December, 2012**

Name	Chamber	Country	Position	Background
<b>Jose Narciso da Cunha Rodrigues</b>	ADJUDICATORY	PORTUGAL	Chairman of CFCB	Former Judge at the European Court of Justice
<b>Louis Peila</b>		SWITZERLAND	Vice-Chairman of CFCB	Judge Cantonal, Court of Geneva
<b>Christiaan Timmermans</b>		NETHERLANDS	Vice-Chairman of CFCB	Former Judge at the European Court of Justice
<b>Charles Flint</b>		ENGLAND	Member of CFCB	Senior Barrister (Financial Regulation and Sports Law)
<b>Adam Giersz</b>		POLAND	Member of CFCB	Former Sports Minister of Poland
<b>Jean-Luc Dehaene</b>		INVESTIGATORY	BELGIUM	Chief Investigator of CFCB
<b>Jacobo Beltran</b>	SPAIN		Investigator	Member of Madrid Assembly
<b>Brian Quinn</b>	SCOTLAND		Investigator	Former Executive Director and Deputy Governor of the Bank of England
<b>Egon Franck</b>	GERMANY		Investigator	Professor and Chair of Business Management, University of Zurich
<b>Umberto Lago</b>	ITALY		Investigator	Professor of Economics, University of Bologna
<b>Petros Mavroidis</b>	GREECE		Investigator	Professor of Law at the European University Institute, Florence
<b>Konstantin Sonin</b>	RUSSIA		Investigator	Professor of Economics & Vice Rector, New Economic School, Moscow
<b>Yves Wehrli</b>	FRANCE		Investigator	Lawyer and Managing Partner of Clifford Chance



**Appendix 8: Scottish FA Licensing Framework**



<b>Appendix 10: Sponsorship Contracts for Asante Kotoko Signed between 2010 - 2013</b>				
<b>Company</b>	<b>Contract date</b>	<b>Duration</b>	<b>Annual Payments (maximum)</b>	<b>Remarks</b>
<b>MTN</b>	01/10/2010	2.5 years	GHC1,050,000	GHC150,000 paid annual for the construction of Legacy Project
<b>Interplast</b>	19/10/2010	3 years	GHC100,000	GHC 60,000 as bonus for winning League and GHC15,000 for winning FA Cup
<b>Latex Foam</b>	14/07/2012	3 years	GHC120,000	GHC10,000 in products per annum
<b>rLG</b>	08/01/2013	3 years	GHC 120,000	Plus commission on the sale of Kotoko branded mobile handsets
<b>IEI</b>	01/01/2011	3 years	GHC20,000	GHC 55,000 utilized to purchase insurance premium
<b>Everpure</b>	01/11/2011	3 years	GHC60,000	Half of the amount is in products of the water company
<b>Fidelity Bank</b>	01/04/2011	3 years	GHC72,000	Increases to GHC96,000 in a year in which in the club qualifies to play in CAF Interclub competitions Africa
<b>Smart TV</b>	01/09/2010	3 years	GHC67,000	GHC88,000 utilized to buy bus for Youth team in year one
<b>Blue Jeans</b>	01/08/2012	3 years	Y1 = GHC 100,000 Y2 = GHC 120,000 Y3 = GHC 130,000	GHC250,000 for years 2 & 3 to be utilized to construct astro turf branded in sponsor's name
<b>Kinapharma</b>	01/09/2012	5 years	Y1 = GHC 60,000 Y2 = GHC 72,000 Y3 = GHC 84,000 y4 = GHC 96,000 Y5 = GHC108,000	Products of company included
<b>Africa Origins</b>	01/07/2012	3 years	Y1 = 30,000 Y2 = 40,000 Y3 = 40,000	Official Travel and Tours Partner
<b>Mama Vits</b>	01/10/12	3 years	GHC15,000	Official Meal Partner
<b>UBI Petroleum</b>	01/09/2012	2 years	GHC 24,000	In fuel coupons
<b>Source: Interim Financial Statement of Asante Kotoko SC for the Year ending June, 2013.</b>				

<b>Appendix 9: Deductions made from Rights Revenue by GFA to settle Kotoko's Other Football Indebtedness</b>				
	REFERENCE DATE	IN RESPECT OF	AMOUNT	REMARKS
<b>GHANA FA</b>	JAN 2009	Loan taken by club to execute CAF Champions League campaign	US\$ 20,000	Three payments made between 2009-2012 leaving balance of US\$11,058
<b>GHANA FA</b>	AUG 2009	Unpaid player transfer commission in respect of transfer of Alex Asamoah to FC Gyeongnam of South Korea	US\$ 5,000	Amount paid out of OMP Media Right revenue due to club in March 2010
<b>HANS DIETER SCHIMDT</b>	MAR 2012	Payment made on behalf of the club as a result of the decision of Court of Arbitration (CAS) to the club's former coach	US\$ 22,216	Amount paid out of GLO sponsorship revenue due to club in March 2012
<b>GENCLEBIRLIGI</b>	MAR 2012	Payment for Solidarity Mechanism made on behalf of the club as a result of decision of FIFA Player Status Committee in the transfer of Adamu Mohammed	US\$ 6,037	Amount paid out of GLO sponsorship revenue due to club in March 2012
<b>FIFA</b>	MAR 2012	Payment of Fines imposed by FIFA Player Status Committee in the transfer of Adamu Mohammed	US\$ 1,392	Amount paid out of GLO sponsorship revenue due to club in March 2012
<b>GHALCA</b>	JAN 2009	Loan taken by club to execute CAF Champions League campaign	US\$20,000	Two installments totaling 10,000 made in 2011 and 2012 leaving a balance of US\$ 10,000 as at 30/06/2013
<b>GHANA FA</b>	MAR 2012	Bank Charges	US\$688	Amount paid out of GLO sponsorship revenue due to club in March 2012
<b>Source: Ghana Football Association</b>				

**Appendix 11: FFC Financial Licensing Criteria Grading**

Grade	Description	Content
<b>A</b>	Annual Financial Statements Audited	Documents required to be prepared and audited by independent auditors include: <ul style="list-style-type: none"> <li>- Balance Sheet , Profit and Loss account, Notes to Financial Statements</li> </ul> These documents should be accompanied by Directors’ Report or Financial Review by Management
	Information in Balance Sheet:	Current Assets: Accounts Receivable -Other expanded to include receivables from FA and Affiliates of the FA
		Non-Current Assets: No changes made to requirements in the FIFA Regulations
		Current Liabilities: Four other line items included to reflect the fact that the accounts should include ‘purpose-oriented financial info’. Accounts Payable – Other disintegrated.
	Information in profit and Loss Account	Non-Current Liabilities: Other Long-Term Liabilities split into that in respect of Player Sign-On and Player Transfer Fees
Revenue: Made more relevant to the Ghanaian situation in terms of the description of the line items. More disaggregated data to be provided which is football specific.  Expenses: Payments to players disaggregated whilst expenditures related to fines/fees/subscriptions are also separated from other operating expenses		
<b>B</b>	Evidence of Payment of Employee Salary	Club to provide evidence of payment of staff to the FFC on a monthly basis.
	Cash Flow for Licence Year	From Operating activities 2. Investing Activities, 3. Financing Activities 4. Others
	Budget for Licence Year	
	No Overdue to Clubs	From Player Transfers. Evidence to be provided by Club.
	No Overdue to Players	From Sign-On/Enticement Fees. Evidence to be provided by Club
	No Overdue to Other Employees	Evidence to be provided by Club
	No Overdue to Tax/Social Agencies	Tax, Social Security and National Health Insurance payments. Evidence to be provided by club.
<b>C</b>	Loan Agreements with Financial Institutions	It is in the interest of the club to ensure that loans that it contracts are endorsed by the FFC
	Loan agreements with FA	Any of the two parties involved would make it available to the FFC
	Loan Agreements with Other FA Affiliates	Any of the two parties involved would make it available to the FFC

## Appendix 12: Documents to be submitted by Clubs to FFC

Document	Notes	Frequency	Ghana FFC Regulations
<b>Balance Sheet</b>	Required by the Companies Code, 1963 (Act 179) Part N: Article 123-136. To be audited by independent auditor. (Criteria A)	Annually	✓
<b>Profit &amp; Loss Account</b>	Required by all (criteria A)	Annually	✓
<b>Notes to Financial Statement</b>	Required by all (Criteria A)	Annually	✓
<b>Cash Flow for the Current Year (T)</b>	Would help to determine whether a club would survive as a going concern and meet its financial commitments during the (Criteria B)	Annually	✓
<b>Budget for the current Year</b>	Would help to determine whether a club would survive as a going concern and meet its financial commitments during the licence year. (Criteria B)	Annually	✓
<b>Audited Account (T-1)</b>	Required by the Companies Code, 1963 (Act 179) Part N: Article 123-136. To be audited by independent auditor. (Criteria A)	Annually	✓
<b>Audited Account (T-2)</b>	Would become automatically available to the FFC Board by the second year of its operation... except for clubs who are undergoing the licensing for the first time (Criteria A)	During the first review year only	×
<b>Player Transfer Agreements between clubs detailing payment schedule</b>	Allows for the detection of overdue payments to football clubs resulting from player transfers. It is also required as part of the player registration process. (Criteria B)	Seven (7) days before the end of the transfer window	✓
<b>Player Contracts detailing financial conditions of contract and payment schedule</b>	To determine overdue payments to players. Also required as part of player the player registration system (Criteria A)	Seven (7) days before the end of the transfer window	✓
<b>Loan Agreements with Financial Institutions</b>	For approval and guaranteeing (if required) by FFC (Criteria B)	14 days before the agreement becomes effective	✓
<b>Loan Agreements with FA</b>	Short term arrangements (Criteria B)	3 days after signing of agreement	✓
<b>Loan Agreements with Other FA affiliates</b>	short term arrangements (Criteria B)	3 days after signing of agreement	✓
<b>Function statements from home matches</b>	To be submitted within 7 days of a match. Failure to submit within stipulated time frame should attract a sanction (Criteria B)	7 days after a match	✓
<b>Evidence of Payments of Salary of Players and Staff</b>	To be submitted within 14 days of the last day of the month	Monthly	✓

### Appendix 13: Information on Balance Sheet

Type	Item
<b>Current Assets</b>	Cash and Cash Equivalents Accounts Receivable from player transfers Accounts Receivables from FA Accounts Receivables from GHALCA Accounts receivables from group entities and related parties Accounts Receivables –Other Inventories
<b>Non-Current Assets</b>	Tangible Fixed Assets Intangible Assets – Players Intangible Assets – Other Investments
<b>Current Liabilities</b>	Bank Overdrafts and Loans (financial Institutions) Accounts Payable Relating to Player Transfers <b>Accounts Payable Relating to Player Sign-On</b> <b>Accounts Payable to Other Employees</b> <b>Accounts Payable to FA</b> <b>Accounts Payable to Affiliates of FA</b> Accounts Payable – Other Tax Liabilities SSNIT (Social Security Contributions)
<b>Non-Current Liabilities</b>	Bank and Other Loans Other Long Term Liabilities – Player Sign-On Other Long Term Liabilities – Player Transfer Tax Liabilities Long-Term Provisions
<b>Net Assets/Liabilities</b>	Net Assets/Liabilities

## Appendix 14: Information in Profit/Loss Accounts

<b>Revenue</b>	<p>Gate Receipts          Player Sales          Club Sponsorship &amp; Advertising          League &amp; FA Cup Sponsorship          Media Right Sales          Commercial &amp; Merchandising          Donations          Other Operating Income</p>	<p>Represents an almost exhaustive list of the sources of revenue for Ghanaian clubs. Support from government agencies</p>
<b>Expenses</b>	<p>Cost of Sales/Materials          Employee (Non-Player) Benefit Expense          Impairment of Fixed Assets          Amortisation of Player Values  <i><b>Player Wages</b></i>  <i><b>Performance Related Payments to Players</b></i>  <i><b>Other Expenditure on Players (e.g. Housing)</b></i>  <i><b>Fines/Costs/Subscriptions</b></i>          Other Operating Expenses</p>	
<b>Other</b>	<p><i><b>Profit/Loss on Disposal of Assets – Players</b></i>  <i><b>Profit/Loss on Disposal of Assets – Others</b></i>          Finance Cost          Tax Expense          Profit or Loss After Taxation</p>	

## APPENDIX 15: SAMPLE INTERVIEW TRANSCRIPT (Pt. 1)

INTERVIEWER (I): KWAME BAAH-NUAKOH

RESPONDENT (R): ADU

LOCATION: CONFERENCE ROOM, GHANA FOOTBALL ASSOCIATION, ACCRA

### INTRODUCTION OF INTERVIEW SESSION MADE AND RESPONDENT GAVE CONSENT TO BEGIN

I: Good after... my name is Kwame Baah-Nuakoh and I am doing a PhD thesis on the financial regulation of professional football clubs. I would like to pick your thoughts on the financial regulation of clubs. For instance if you feel there is a need for clubs to be regulated, to ensure that they run the financial activities of their clubs properly, whether you think the current FA regulations are adequate to ensure that clubs are regulated financially; and then I will show you a model of financial regulation that I have developed and I would pick your thoughts on whether you feel it is relevant for the Ghanaian situation.

So first I want to find out from you what your thoughts are Do you think that clubs should be financially regulated and by whom?

R: Certainly yes because the clubs form the association and in every association there must be guidelines and especially because the clubs manage players and it is an employment situation, there must be a general rule that guides how clubs run their various affairs in terms of financial issues. So I think that it's always necessary and very important that the association becomes the regulator so that once you breach it there must be some sanctions because you have to be taking part in the competitions of the association. So if the association regulates it---once people always want to be part of the competition they would be compelled to respect the regulation.

I: Now let me find out from you --- currently what I know is that clubs are asked by the regulations and the statutes to submit their accounts annually to take part in the league, the FA is also obliged --- the FA can also investigate the activities of a club---Do you believe that these have been working well and are they adequate for the regulation of clubs?

R: Seriously, I think that at our level now, and looking at our financial circumstances in terms of the national economy I think that for now it is okay---but the point is that it is a question of supervision. Even though clubs are enjoined to submit audited accounts the question is "how true or how correct are these accounts presented?" So the FA maybe--- that is why I talk about supervision --- so the FA maybe must devise a means where these accounts can be verified to know whether people do not just only pick figures to arrive at something.

I: But the accounts are supposed to be audited by qualified auditors?

R: Kwame, you are in this country and you know that there are a whole lot of accounting firms, there are a whole lot of auditors who would want to work for people. Once they are being paid they can do anything --- because what you bring to the FA is supposed to reflect on your accounting or financial situation. You find out that what the clubs bring and during the season what happens and even in terms of clubs owing, in purchasing of players, transfer fees and other things. If you compare that with the audited accounts for maybe the previous year you would see that it doesn't tally. So for that reason there must be some mechanism to be able to verify to some extent, they are not interfering in their financial business but just to make sure that what they present should be the true reflection of the activities of the club.

I: What is the objective of asking them to present in the first place... to ensure that they have adequate funds all is it because you want to make sure that they are doing the right things?

R: It is because the association would want to make sure that they are doing the right things because you know we have been running clubs previously on this 'one man business' and --- the man just picks; no receipt; nothing --- gives money to a player or buys something without reference to documentation and other things. But since we want to get to professionalism where we expect corporate bodies to come and sponsor those bodies would want to make sure that when they bring the sponsorship you'll account for them or you would use them religiously well such that they would know that yes --- they have some returns in terms of respect for the money that they have put in.

It is not just that you come and take the sponsorship money and you think you have to go and use it for your cocoa farm. You must use it for the purpose which you applied for. So I think that that is why the association should be more particular in regulating the financial activities of the clubs and for that matter putting out a regulation that would compel them to respect certain basic requirements about financial activities [of the clubs].

I: Let me ask you about the transfer--- you raised the issue of clubs owing from purchases... how does it normally go? I mean --- A club wants a player from another club, they negotiate, they agree on the terms of payment. Do you have any experience as to how they guarantee system for instance comes in?

## APPENDIX 15: SAMPLE INTERVIEW TRANSCRIPT (Pt. 2)

R: Yah--- that is where I think these regulations would help because people go into negotiations ... because the association hasn't got any mechanism for controlling the transfer arrangement, --- "eh oh, give me your player... you know registration window is closing. Let me register him... eh I will pay you this amount ... blah, blah, blah. Even the player "you just sign, I will pay you---" Those are the things that we do. But when there is a system such that if you are signing on a player... I know FIFA in their Status and Transfer (the Regulations for the Status and Transfer of Players) they have time limits. If you purchase a player in terms of Solidarity and payment of Training Compensation , within 30 days you must pay this, that, that, that...

These are some of the things that I expect the association would have to do. So that --- for domestic transfers... people would not even accumulate debt. If you know that you have to pay 200 million (Cedis) within the next thirty days, at the end you will budget yourself to the point that when you are buying players you will look at what you have and what you can pay within a certain period before you do the negotiation. And that is why it is necessary so that it would even help the clubs to control their debt situation.

I: Probably not to buy more than they can afford---

R: ---more than they can afford---

I: Let's look at the use of the GLO sponsorship money as guarantee--- What are the problems associated with it and what are the advantages? Let's start with the advantages. Who do clubs do that in the first place?

R: Because clubs had stayed for long without sponsorship so when sponsorship started coming in and especially when the GLO came and the first two years they saw that they were regular in paying and because the clubs didn't have another source of revenue and since other bodies that they were dealing with knew very well that at least at the end of this period GLO is going to pay this club this amount. The advantage was that you had a guarantee somewhere so if you go in to purchase a player, you tell the man that "oh this GLO money is coming so when it is paid I will then come back and pay you." And that is why I say that it is necessary for the FA to regulate it. So that the association knows that you have US\$120,000 so if you are doing any purchase within the season, assuming that you are going to use only the GLO sponsorship money for your purchases, then it should not go beyond that. Initially that was the advantage because there was guarantee so people could rely on.

I: The clubs would not even have to go to the financial markets to borrow where there would be interest

R: Where there would be interest and---. The disadvantage is that when the sponsorship delays---you know in Ghana because every day you have --- you made use of that your financial term --- the cedi loses value --- the depreciation of ---. The moment you keep on relying on the sponsorship and it does not come, the person you owe keeps pressing you, so even if you know the GLO money would come because somebody is putting pressure on you you'll be tempted to go and borrow from the financial institution and come and pay. And now you will use the GLO money again as a guarantee. But in the financial institution there are interest accruing and for that reason if the money delays---. That is the major disadvantage in terms of using the sponsorship money as a collateral and going in for loans. It is also a disadvantage to those who sell the players to you. Because if like the GLO delayed for almost one and a half years, so if you promised somebody that within the next thirty or forty days am going to pay you he has to stay for one and a half years. And because there was no arrangement to show that if you pay it after this date there must be this interest accruing on it, it is a disadvantage---the seller is losing.

I: Let me get your thoughts on clubs going to financial institutions for money. What are the main challenges? Has your club ever taken advantage of that---gone to financial institutions --- and what are the challenges or what have you heard?

R: Seriously my club has not done because you know it's almost like --- it is a traditional team and the paramount chief is the man who is doing everything so it's like the state---local traditional state that is in charge and I am not aware that they have gone to any financial institution to---

I: And why have they not gone ... is it because..?

R: Because they sell lands and the other royalties that companies pay to them and other things. Then the Omanhene himself uses his own personal business monies that he gets---. But you look at other clubs that do not have source of revenue, they are compelled to go to the financial institutions and go and borrow.

I: And what are their stories?

R: Their stories is very bitter because in the end they find out that whatever comes in in terms of sponsorship is swallowed and sometimes they even have to go to beg for the financial institutions to stop the interest for a while so that they would be able to pay. And I think that that is the problem ---



## APPENDIX 15: SAMPLE INTERVIEW TRANSCRIPT (Pt. 3)

I: So it's an issue of the cost of credit --- the cost is prohibitive..?

R: Yes--- Yes, that is the problem --- but I believe that if the sponsorship was coming regularly there wouldn't have been any problem.

I: Clubs don't have to go there or --- is it that if the sponsorship money was coming regularly clubs ...

R: wouldn't have to go to financial institutions...

I: ---or they wouldn't have to pay a lot more interest...?

R: I think the two --- because the sponsorship takes care of about maybe 20% of your total expenditure. But because sometimes it comes in bulk, when it comes you use it to pay something. But whether it comes or not --- but if you know it would come regularly what you do sometimes is that you borrow to do the day to day running of the club because maybe you have sold a player somewhere and you think that they would pay later so that when that money comes in you use that money to defray. The problem I see is the delay in the sponsorship.

I: Let me pick your thoughts on --- you know clubs --- the FA for instance used to give short term credit to clubs especially those who are playing in Africa. What is the history --- what is your understanding of that history? We heard the FA wanted to stop doing that --- Would you support that or you think it needs to be refined?

R: Personally I do not believe that the FA should loan. The FA should support, and for that matter the Government. I have always had that view...

I: support in what way---financially?

R: Financially---. Give the money to support them and not expecting the money to be paid back--- because whether we like it or not the performances of our clubs gives --- the credit sometimes goes to the nation and it raises the image of the association. So if you want to get some respect somewhere, due to the performances of your clubs then you must also make some input. And that is why if the FA regulates the financial activities of the clubs then they would be able to guarantee that if I am putting money for you to go to Africa, you are not going to misuse the money because at least I will have access in trying to control how the money is used.

So I will suggest that in future the FA should sit down maybe in collaboration with the government and maybe set up --- if in the budget of the government --- when we had four clubs in Africa --- if you budget US\$ 1 million every year --- it's not much. Every club takes US\$250,000 as seeding money to start the African campaign. From then on they themselves would have to fend for themselves. It would be okay and am sure that it would motivate the clubs to do very well and if they do very well it would also reflect on our national teams because clubs would be ready to buy quality and train them. Even if they don't buy they would be ready to invest, put up infrastructure to train players.

I: and even maintain them---

R: Maintain them so that they would not be flying outside and for that matter the national teams too would also gain. So I will recommend that at least one million dollar every year from the government purse because if they go outside they just don't call the club they talk about Ghana. The national anthem that is played is not the club's anthem (Laughs)

I: Before I come to the model itself let me pick your thoughts on the club licensing regulations---especially the financial aspects of it. What do you understand that--- What are your thoughts?

R: I think it is the same thing that we are talking about because if the FA is regulating your financial situation --- because it is regulating it, it has given some categories of clubs. So depending on your financial might at a particular time you would be classified maybe in a higher category. In so doing the clubs would be so committed in trying to do the right thing because they want to remain in the league --- they want to be on top there because whether we like it or not sale of players is part of the business of football and every club administrator would want to make sure that at least he would be able to sell a player. If this club licensing is put in place it would now be incumbent on all the clubs to show financial ability, financial trust --- people must trust that you can do the right thing --- credible, credit worthy and all those things and it would show your capability in terms of going to play in Africa or so --- I think that that would give the Association the power, authority to regulate and to supervise.

I: Two quick questions --- why isn't the FA able to review the financial statements of clubs --- is it an issue of capacity within the FA?

R: I think it is a practice in this country. Like the companies submit their audited accounts to the Registrar General every year, they don't -- - you don't hear anything. Nobody verifies --- nobody does anything

## **APPENDIX 15: SAMPLE INTERVIEW TRANSCRIPT (Pt. 4)**

I: But does the FA have the capacity internally to review?

R: For now they don't have but if it has to come on board then they would have to train people for that.

I: We have raised the issue of some auditors of clubs approve of documents which do not reflect in anyway --- would you suggest that the FA say bans an auditing firm because it doesn't show credibility from auditing any football club?

R: It would depend on whether they have enough evidence to show that that firm has---

I: okay let me give you an example where two clubs being audited by the same firm submits the same figures.

R: That is enough evidence to show that the auditor did not do any thorough work because in auditing there cannot be two companies with the same situation in terms of financial arrangements. That one you would have the basis to recommend that that auditing firm should be banned. But I think that if the club licensing and the regulation come into place then the FA would be able to visit the clubs and they would demand all these because the club is supposed to hold annual congress to approve of an auditor --- and all these requirements must be submitted to the FA. And the FA would go round inspecting. When we do that continuous for about two three years in fact the system would stabilise and you would be sure that this auditor is credible, this one is reliable or [not].

I: Would you suggest a specific committee of the FA to deal with this particular issue of reviewing the financial capability and issues relating to it?

R: Certainly, it is a professional thing --- like me sitting here as an engineer I cannot go this committee and we need professionals to advice. It is not that they are sitting in place just for nothing, they would do the work and make suggestions but once in a while they must visit the clubs to provide professional --- give them some professional input, and directions and other things so that we will be able to streamline things and --- It is necessary that they put together some professionals, experts ...

**THE FFC FUNCTION MODEL WAS THEN PRESENTED TO THE RESPONDENT.**

*The respondent listened attentively as the presentation was done and nodded and provided short comments frequently to show a general understanding and approval of the principles underlying the model. This was sometimes accompanied by laughter. When the presentation was done the first comment made by the respondent was "I think it is okay and it sums up to what we have just discussed" in reference to the discussions preceding the presentation.*

**THE LICENSING DIAGRAM WAS THEN EXPLAINED TO THE RESPONDENT.**

So that they would just vet and make their report to the licensing committee---

**MONITORING FRAMEWORK IS THEN PRESENTED TO THE RESPONDENT**

On sanctions: You can apply sporting sanctions --- they can lose points --- it would put fear in them to comply---

On incentives: That would even secure your existence

**END OF PRESENTATION**



## APPENDIX 15: SAMPLE INTERVIEW TRANSCRIPT (Pt. 5)

I: What are your general impressions about the model, and whether you think it is applicable to our circumstances?

R: Luckily we had discussed it separately before even coming to this --- and the inputs that we discussed are captured completely here and I think it's okay. It's okay.

I: So in terms of regulating access, you think the player transfer system would work?

R: Yes--- It would work. Me I have said that it is because there is no system to check those things that is why clubs owe a lot and even players are not being paid because it is not in our regulations for the association to interfere in terms of business transactions as regards transfer of players. If there is some regulation that would streamline that thing --- I think it is --- so it is ok.

I: And in terms of providing guarantee for short term credit---

R: Yeah --- Because you want to have an insight as to what is going on you must also find the means to support the clubs. So if you are supporting, then certainly you have the access and the rights and you cannot be thrown out, because you have given that financial support and it is incumbent on you to be able to supervise it. And supervising, you want to make sure the right thing is done.

I: And you think this would provide enough incentives for clubs to do the right thing?

R: Yes, if somebody is guaranteeing for you to go and take money from somewhere and that same person is saying that when you take the money I want to make sure that you use the money for the right thing. It is like you go to the bank and take money for a project. Banks have project managers who visit the project sites to make sure that the monies are used for the projects --- so I think it is in order.

I: And what about the government funding--- in terms of---

R: Me for the government funding I am always for it because I think that even though --- individuals are investing from their own pockets and other things, the government benefits a lot --- and because in terms of exposure.. if Ghana had not gone to the world cup in 2006 Ghana was not known even though previously they were talking about it... the World Cup raised the profile of Ghana --- and if the people in the tourist industry would be truthful they would see that tourism increased after the World Cup and especially also after the 2010 World Cup in South Africa when we went to the quarter finals. So it is very beneficial to the government.

I: You are thinking of an annual football grant --- rather than the revolving fund

R: Yes --- an annual grant --- the revolving fund sometimes clubs may have difficulties in paying back the money and that is why the first one failed because some two clubs refused to pay. So if the government accepts that every year am going to budget two million --- one million dollars to the Ghana football association for infrastructural development --- for youth development --- it knows that it is statutory and it is always in the budget and no person will go and sit there and say that there is no money because putting up a budget you know where you are going to get that money from.

I: and you believe that these would provide incentives for the clubs to ensure that their accounts are audited properly?

R: Yes --- because if the government is giving you grant every year you would want to make sure that you do the right thing. So the government in collaboration with the FA would set up this body so that the body would always make sure that you do the right thing.

I: You would suggest that in terms of the composition of the FFC you want to see government/FA collaboration?

R: Yes --- there must be a government representation because if the government is giving us grant there must be somebody there who would protect the interest of the government. So somebody from the government --- If it is a three member body, one person from the government and two from the FA that would be okay.

I: In terms of training programs you think your club for instance would benefit from such a thing?

R: Yes --- because in Dormaa Ahenkro we have a vast land for future development and we are thinking of putting up an academy and all those things. So this training program would be very beneficial and I think it is good.

I: How frequently would you want the FFC to monitor the clubs?

R: Depending on the personnel and the availability of time, because they are not going to work there permanently. So maybe twice in a year --- maybe at the beginning of the season ---then half way through. So that when we go to congress at the end of the season they can make reports to Congress.

## **APPENDIX 15: SAMPLE INTERVIEW TRANSCRIPT (Pt. 6)**

I: And probably tell the clubs where we felt short and where we need to improve...

R: Yes , yes.. and especially if they go round and if they think there must be a follow-up because a club has some short comings somewhere, then at their own free time --- but twice in a year would be adequate.

I: I want to thank you very much --- you benefitted from this discussion...?

R: I benefitted a lot --- (laughter)

### **THE INTERVIEWER THEN EXPLAINED TO THE RESPONDENT THE PROCESS OF TRANSCRIBING AND SENDING IT BACK TO HIM FOR VALIDATION**

R: You know we need to develop --- that's why I say that England --- twenty years ago their league --- nobody was thinking about their league --- Maybe they took their time to make sure they do the right thing. But the problem with |Ghana is that we don't want to take things gradually. We want always to compare ourselves and jump. If this thing is put in place it cannot take immediate effect. But gradually, gradually, within about five years you see that --- like they say Ghana is ranked third --- our league... this a our regulation we put in place when the FIFA thing came ---2006 --- this is 2012 ---six years --- at least it has shown some --- and the level of the competition of the game has also gone up. We need to always take our time, have patience and go through it ---

I: And do things that are applicable to our situation ---

R: Within our environment --- because you must give a dose that people can swallow --- even though it will be bitter they will swallow it gradually.

I: Thank you very much

R: Am also pleased!