

SCOTTISH FOOTBALL – IT’S A FUNNY OLD BUSINESS

Journal of Sports Economics (2006, forthcoming)

Stephen Morrow

Department of Sports Studies

University of Stirling

Stirling (Scotland) FK9 4LA

Tel: 00 44 1786 466495; Fax: 00 44 1786 466919

e-mail: s.h.morrow@stir.ac.uk

ABSTRACT

The last few years have been financially challenging for Scottish clubs: sustained losses, record levels of indebtedness, several clubs placed in administration. There are numerous reasons why Scottish football finds itself in this state. External factors like changes in the economics of football, in particular changes in football’s relationship with broadcasters have contributed; so too internal factors like poor financial management. While the need to adopt decision making and control procedures appropriate to the present financial circumstances of Scottish football is recognised, there is also a need for structural reform, both at a domestic and European level.

The last few years have been financially challenging for Scottish football clubs. The combined debt of the twelve Scottish Premier League (SPL) clubs at their 2003 year end was £186m, some £32m higher than the clubs' combined annual turnover (PWC, 2005). In the last four seasons only one SPL club has reported a pre-tax profit. At one point in season 2003/04 a quarter of SPL clubs were in administration (Morrow, 2004). The current structure of football in Scotland consists of the SPL and three divisions of the Scottish Football League (SFL), each with ten clubs. These 42 clubs differ markedly in terms of market size, attendance levels, facilities, playing skills etc. Many of the SFL clubs are part-time teams and attract very low attendances. But one common feature is that they are nearly all long lived institutions. Two thirds of the clubs were formed in the nineteenth century and despite the financial problems of many Scottish clubs in the last few years and before, one significant fact is that few clubs have actually gone out of business¹.

THE POLITICAL ECONOMY OF FOOTBALL IN SCOTLAND

While Scotland is part of Great Britain, and is governed by a British Parliament in London, in a football context the two countries have always operated independently, with separate leagues, separate national sides, and separate voices within UEFA and FIFA. Notwithstanding this independence it is indisputable that England and English football is and has been a major explanatory factor in the development and the current condition of Scottish football.

The regularising of professional football in England in 1885 was a key driver of change in Scottish football as it removed the possibility of lucrative friendly matches against English clubs. The Scottish League was subsequently founded in 1890. Similar to

England, for the most part Scottish football clubs adopted the structure of limited liability companies (Vamplew, 1988), motivated initially by a desire to protect the founders and officers of the club from personal liability in the event of the club developing unpayable debts, particularly as wages rose. Normally the limited liability model results in a separation of ownership and control of the company, but in football the two often continued to overlap with many Scottish clubs being owned by small groups of businessmen and a few hundred small shareholders, mostly fans. To this day most Scottish clubs remain structured as private limited companies. In effect the adoption of limited liability structure resulted in a division being created between those who owned and ran the clubs and those who supported them. Certainly, there has been a broadening of ownership at a number of clubs in recent years both by design - for example, through share issues at a club like Celtic - and by compulsion - for example, where clubs in financial crisis have been forced to seek new shareholders. Nevertheless, most Scottish clubs remain undercapitalised, have highly concentrated ownership structures and have restrictions on the transferability of shares; facts which serve to restrict the development of these clubs.

On the playing side until the last decade or so it was common for top Scottish players to play for English clubs, their presence being an influential factor in interest in English football in Scotland. Another factor was television: long before satellite television and deregulation of the televised football market allowed armchair supporters in Scotland the opportunity to watch English FA Premiership matches live in their own home, highlights of English football were available on terrestrial television in Scotland on Saturday nights.

The Scottish Football Association (SFA) is the governing body for football in Scotland, with the professional leagues being administered by the SPL and the SFL. Teams from the SFL Division 1 can be promoted to the SPL as long as they meet certain criteria; for example, having a 6,000 capacity all-seater, covered stadium. The Premier League was set up in 1975/76 initially under the auspices of the SFL, but a new SPL, separate from the SFL, was established in season 1998/99. The new league was modelled on the highly successful English FA Premiership, the motivation being to increase the financial rewards available to top clubs particularly through improved television deals. Portrayed at its inception by the clubs as a bright new future for football in Scotland, many observers were less convinced, considering it more a case of *plus ça change, plus c'est la meme chose*: the same clubs, the same competitive imbalance, the same dominance by two clubs, Celtic and Rangers.

Understanding Scottish football means appreciating the significance of Celtic and Rangers, the so-called 'Old Firm'. Since the old Scottish League was set up in season 1890/91 – when the title was shared by Dumbarton and Rangers - on only 18 occasions out of a possible 108 has a club other than Celtic or Rangers been crowned champion, earning it the position as the most dominated domestic league in Western Europe (Gerrard, 2004). The dominance of these two clubs is also apparent financially. Their home match attendances are among the highest in Europe: for season 2003-2004, Celtic's average attendance was 58,500; at Rangers it was 49,250. By way of contrast, the average attendance for SPL clubs excluding the Old Firm is approximately 8,000. Taken together with the facts that since 1981 Scottish clubs have been permitted to retain gate receipts from their home matches (Crampsey, 1986) and that television rights for Scottish football are relatively low (see Table 1), the distribution of income set out in Figure 1 is easily understood.

Time period	Broadcasters	Details	Annual rights fee £m (approx)
2004-2008	Setanta	Live SPL matches	9.0
2002-2004	BBC	Live SPL matches, highlights	8.5
1998-2002	BSkyB, BBC	Live SPL matches, highlights	12.0
1994-1998	BSkyB, BBC, STV	Live SPL matches, highlights	4.0

Table 1: SPL television deals

SOURCE: Morrow (2003), various press reports

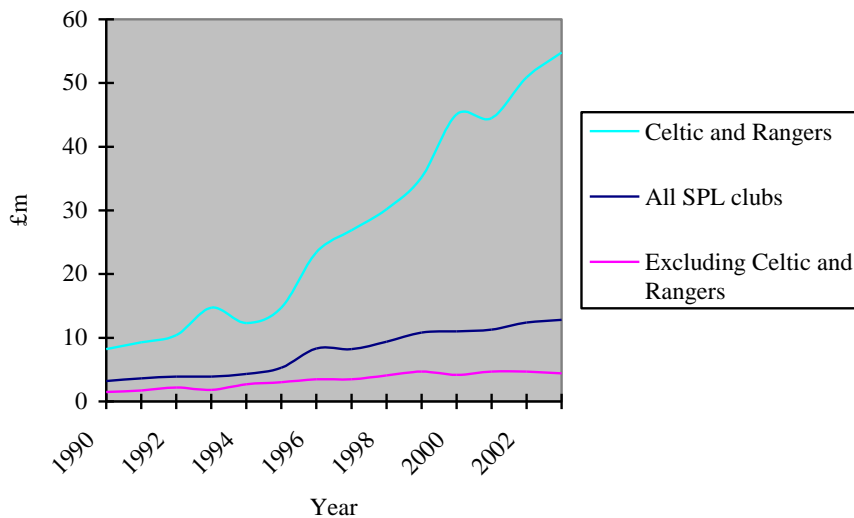


Figure 1: Scottish Premier League clubs - average turnover

WAGE DETERMINATION

While the decisions taken in 2001 that resulted in the SPL not renewing its broadcasting deal with Sky Television and ending up with a shorter and less lucrative deal with the

BBC was a contributory factor (see Table 1), the principal explanation for the lack of profitability and the level of debt within the SPL has been the high level of wage costs (PWC, 2005). Notwithstanding that the *Bosman* ruling and subsequent modifications to the player transfer system have acted to drive up wages by creating something akin to a single European market in players (Morris *et al.* 2003), the figures in Table 2 indicate that directors at too many clubs have shown a disregard for financial common sense; offering contractual terms which could not be afforded in the medium to long term.

	Total wages	Wages as a percentage of turnover			
	£000s	2003	2002	2001	2000
Aberdeen	5,431	77%	70%	86%	84%
Celtic	33,079	55%	58%	62%	52%
Dundee	4,122	104%	154%	126%	75%
Dundee United	3,292	107%	88%	96%	81%
Dunfermline Ath.	4,619	115%	132%	131%	137%
Heart of Midlothian	5,116	85%	94%	90%	84%
Hibernian	3,978	72%	78%	76%	78%
Kilmarnock	4,282	79%	89%	76%	70%
Livingston	4,099	84%	84%	72%	NA
Motherwell	2,241	71%	62%	107%	99%
Rangers	34,592	71%	83%	70%	66%

Table 2: SPL player wage costs

SOURCE: company accounts, PWC (2005, 2002)

The consequence of this level of over-spending on wages and salaries has been sustained losses. More than half of the SPL clubs were technically insolvent (liabilities greater than their assets) at their 2003 year ends. While a few clubs, most noticeably Celtic as well as Heart of Midlothian, have used the Stock Exchange as a source of capital, the majority of Scottish clubs continue to have very concentrated ownership structures, with a majority of shares being owned either by a dominant owner or by the board of directors (Morrow, 1999). The key funders of Scottish football and of Scottish football's losses have been and remain the banks and individual businessmen.

Capital injections and changes in ownership have improved the financial position at individual clubs since the 2003 year end, most notably at Rangers and Heart of Midlothian plc. But these examples do not alter the underlying financial position or outlook for Scottish football. As Table 2 demonstrates the fundamental problem is a cost base which is out of line with income. Prudent financial management, coupled with the introduction of the UEFA club licensing system may help clubs to stabilise the position. But that alone will not solve the problems – within the current structure of football in Europe it is extremely difficult to see how most SPL clubs can trade out of these losses. More fundamentally, one risk of focusing only on internal issues of management and control is that Scottish football ends up in a state of 'genteel and stable poverty' (Royal Commission on Gambling, 1978), but entirely lacking in ambition.

TIME FOR CHANGE?

Scottish football may not be in crisis but equally its clubs and its structures face a number of major challenges, a fact recognised by the Scottish Parliament Enterprise and

Culture Committee (2005, para. 16) in its recent interim report and discussion paper on reforming Scottish football.

Figures showing the extent of the challenge facing Scottish football are stark. ... Just how long [the level of debt] can be sustained through the goodwill of clubs' creditors is a moot point.

In the short term what is essential is that all stakeholders behave in a manner appropriate to Scottish football's changed financial circumstances. In particular there is a need for realism in the wages offered to, and demanded by, players. Improved financial management within clubs is also essential and in this regard the introduction of the UEFA club licensing system is a positive development. Longer term, it is about recognising the need for change. Key to this is dialogue involving all of football's stakeholders. In this regard the consultation exercise initiated by the Scottish Parliament is a very positive development (Scottish Parliament Enterprise and Culture Committee, 2005). At a domestic level this debate needs to focus on initiatives like restructuring - can a country of only 5m people continue to justify having 42 professional clubs, however much some of these clubs are professional in name only - ground sharing, relocation, ownership and governance of clubs and so on. But the debate also needs to extend beyond Scotland to consider issues like Europe-wide league restructuring, including cross-border initiatives like the Atlantic League and clubs playing in leagues organised other than under the auspices of their home association. From a narrow Scottish perspective, arguably the most important issue is solving the problem of Old Firm dominance, both for the benefit of Celtic and Rangers and for the benefit of the other Scottish clubs.

REFERENCES

- Crampsey, R.A. (1986). *The Economics of Scottish Professional Football*. Glasgow: Scottish Curriculum Development Service.
- Gerrard, B. (2004). Still up for Grabs? in Fort, R. and Fixel, J. (eds), *International sports economics comparisons*. Westport, Connecticut: Praeger, 107-122.
- Morris, P., Morrow, S. and Spink, P. (2003). The new transfer fee system in professional soccer: An interdisciplinary study. *Contemporary Issues in Law*, 5(4), 253-281.
- Morrow, S. (2004). The financial crisis in Scottish football. *Scottish Affairs*, 47, 48-57.
- Morrow, S. (2003). *The People's Game? Football, finance and society*. Basingstoke: Palgrave.
- Morrow, S. (1999). *The New Business of Football: Accountability and finance in football*. Basingstoke: Macmillan.
- PWC (2005). *The Pricewaterhouse Coopers annual financial review of Scottish football 2002/03*. Glasgow: Pricewaterhouse Coopers.
- PWC (2002). *The Pricewaterhouse Coopers financial review of Scottish football 2000/01*. Glasgow: Pricewaterhouse Coopers.
- Royal Commission on Gambling (1978). *Final Report - Cmnd 7200*. London: HMSO.
- Scottish Parliament Enterprise and Culture Committee (2005). *Football's future. Proposals to reform football in Scotland*. Interim report and discussion paper. Edinburgh: Scottish Parliament.
- Vamplew, W. (1988). *Pay up and play the game: Professional sport in Britain 1875-1914*. Cambridge: Cambridge University Press.

¹ Two exceptions are Airdrieonians F.C. and Clydebank FC. Formed in 1878, Airdrieonians went into liquidation at the end of season 2001/02 and as a result, the club ceased to be members of The Scottish Football League with effect from 9th May, 2002. Clydebank was a much younger club, becoming members of the SFL in season 1966/67. The club was placed into administration in December 2000. This followed the sale of its ground and its inability to find another suitable site. In an ironical link, in June 2002 the administrators of Clydebank accepted a bid from a consortium on condition that the club was permitted to relocate to Airdrie and change its name to Airdrie United. The SFL's League Management Committee granted permission to enable Clydebank Football Club to change its name to Airdrie United and relocate to play its home matches at the Excelsior Stadium, the former home of Airdrieonians Football Club.