The People's Game and Community Ownership of Football Clubs: A Mutual Solution to a Market Problem

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Football clubs are ostensibly uncomplicated organisations: they exist to facilitate participation in, and the spectating of, organised football. But beyond this plain statement there is a complex and contested debate about the objectives and purpose of these clubs. In England, Scotland, Wales and Ireland most football clubs are constituted as private limited companies with private shareholders. Yet they rarely make a profit their owners seeming more intent on `utility' maximisation and despite a huge increase in revenues over the last 15 years the football industry remains financially unstable (Deloitte 2008; PriceWaterhouseCoopers, 2007). In fact clubs are effectively regarded as social and cultural institutions by their supporters – their key community or stakeholder This raises the question: if football clubs are effectively not-for-profit institutions then would it not be more appropriate to structure them as such, as explicitly not-for-profit community benefit mutually owned organisations controlled by their supporters?

Scottish Football Finance

A review of the recent financial history of the Scottish Premier League is chastening reading for anyone who believes that Scottish football operates according to the profit-maximising principles of market economic theory. Following combined pre-tax losses by the twelve SPL clubs of -£63m in 2001/2002, -£53m in 2002/2003, and -£14m in 2003/2004, the combined SPL clubs made their first ever combined profit in 2004/05 (£3m) since the league's inception in the 1997/98 season. However when one delves below the surface it becomes apparent that this profit only came about because of a £15m accounting gain at Rangers, a £3.5m write-off of loans at Dunfermline, and another £2.8m write off at Dundee as part of financial re-structuring whilst the club was in financial administration having gone bankrupt. Of the twelve clubs in the league at the time only Dundee (debt write-off) Dunfermline (debt write-off), Hibernian (in part helped by shrewd transfer policy), Motherwell (debt write off in previous year – as part of a re-structuring initiated whilst in administration having become bankrupt - but now making small profit) and Rangers (accounting gain) made a profit. In 2005/2006 the clubs again returned to the well-established pattern of a pre-tax loss, of -£9.4m.

As in England financial turnover has increased dramatically but at most clubs any new income has been spent on players' wages etc. For as every football fan intuitively understands, the more clubs spend the better playing talent they are likely to attract, the more successful their team is likely to be on the field of play. In the SPL most clubs have consistently lived beyond their means spending more on players than they could realistically afford through internally generated revenues. In this context clubs only survive through shedding debt through the administration process, through investors funding losses and potentially player sales. In this context debt has ballooned since the establishment of the SPL as Table 1 demonstrates.

Table 1 – Total SPL Club Debt

	Turnover	Debt	Debt as % of Turnover
	£m	£m	
2005/06	172	94	55%
2004/05	168	129	77%
2003/04	173	183	106%
2002/03	154	186	121%

Source: PricewaterhouseCoopers. *Annual Financial Review of Scottish Football.* 2005/2006 season.

The debt situation is only sustainable because so much is held by connected (major/controlling shareholder) parties. Debt has been shed through the administration process, debt forgiveness by "related" parties, and new investment.

And the situation is little better in England where since its inception the combined Premier League clubs have never made a collective pre-tax profit in any one season – in 2006/2007 the twenty clubs made a combined loss of -£285m. At the end of that season the twenty Premier League clubs owed a combined £2,462m.

Structural Problems

Essentially, the structure and organisation of football and its clubs in the UK is paradoxical. The elite level of the sport is generating record levels of revenue, mainly as a result of the advent of subscription television deals and an increase in associated sponsorship income. Yet the distribution is skewed towards a smaller and smaller number of super leagues and further towards a few super clubs therein, in Scotland's case to Celtic and Rangers. As a result, competitive balance within elite leagues is weaker than ever before, the outcome of leagues becoming very predictable. The direction of travel is towards a self-perpetuating system – super clubs are more successful on the pitch; as a result they receive more revenue; consequently they are more successful on the field of play. Some see this as a virtuous circle which showcases the market economy at work, while to others it is practically a form of sporting fraud. However, even though the financial dominance of Celtic and Rangers in Scotland allows them to dominate their domestic league, there is still an incentive for them to over-spend in order to compete more effectively in European competition. In this sporting version of the Arms Race every club is encouraged to pauperise itself. Expected shareholder return is not a phrase commonly used in this area of our economy. Instead the principal beneficiaries at the elite end of football are the workers, or at least some of them, with clubs' top players capturing more than half of clubs' revenues.

In a sense the financial pressure from wages brings us full circle. The fact that almost all professional clubs in the UK are structured as limited liability companies can be traced back to the late 19^{th} century; this structure being motivated by a desire to protect the founders and officers of the clubs from personal liability, in the event of clubs developing unpayable debts arising from increasing player wages. Yet this decision also contributed to a division between those who own and run the clubs and those who supported them, a division which continues today.

But of course, irrespective of their corporate format, football clubs are much more than businesses – while the elite end of the game has become economic in basis, it remains social in nature. Supporters invest not only their financial capital in clubs, but also their human and emotional capital. In addition football clubs have a deep rooted identification with particular cities or regions and hence with communities. The existing ownership model does not, of course, prevent clubs from acting as social institutions and delivering on their obligations to society. For example, all clubs in the Scottish Premier League have Corporate Social Responsibility programmes and initiatives, several of which are very extensive, through which they seek to deliver on some of their wider social and community obligations. But this activity is marginal to the core objective of achieving success on the field of play.

The existing ownership model is risky both in a conventional business sense but also from a societal perspective. When any company is badly managed and/or goes into liquidation then clearly there are losers, notably the company's shareholders who may lose their investment. But the financial and social consequences for a firm's employees and their families, for the companies it trades with, for organisations in the community in which the company is located and so on go much deeper. Given the emotional and social ties between football clubs and their stakeholders then the consequences and risks of poor financial management become even more pronounced. The fact that clubs are structured as companies compounds this problem as suddenly social institutions can be bought and sold, managed or mis-managed by individuals, whose only qualification for the role of football club owner is their wealth. The very nature of shareholder capital is the root of the problem for organisations which have a social purpose – shareholders do not create value for a business and they do not need to share in the values of the organisation. Shares are simply financial instruments which may generate financial value for an individual shareholder.

Practical Consequences of Football's Economics

Three high profile Scottish examples illustrate the risks of the private limited company form of ownership structure. Back in season 2001/02, Gretna FC was playing its football in the Unibond League in England. By season 2007/08 it had played in the Scottish Cup final and had been promoted to the Scottish Premier League, the transformation having been brought about after the club was bought by Carlisle-based businessman, Brooks Mileson. However, after 5 years of financial support and football success, health problems coupled with an unwillingness and/or inability to provide continued financial support has seen that club ultimately placed into liquidation, having entered administration mid-season jeopardising the integrity of the SPL competition in the process, leaving Gretna with no football club and the Scottish Football League with a vacancy for a new club.

Perhaps of even greater concern is the situation at one of Scotland's oldest and biggest clubs, Heart of Midlothian. Since the Lithuanian businessman, Vladimir Romanov, invested in the club back in February 2005, the club has been embroiled in constant turmoil on and off the pitch. At its 2007 financial year end, the club had a debt of £37m, but a turnover of only £10m (a record high). In the 2005/2006 season Hearts had a wages-to-turnover ratio of 97%, as Mr Romanov gambled in an attempt to compete more effectively with Celtic and Rangers, a gamble that he lost. Hearts' debt is held by the Lithuanian bank, UKIO Bankas, in which Vladimir Romanov is the biggest shareholder. So while the bank earns interest on the debt, it is also clearly in a position to call in that debt. And given the club's main asset is its Tynecastle ground this raises questions about its future there should Mr Romanov decide he would like his debts repaid. Meanwhile the owner has decided that the best way forward for the club is to have less communication with its interested stakeholders!

The threat to the existence of football grounds by rising debt, or simply opportunistic owners seeking to cash on rising land prices is perhaps best illustrated by the example of Clydebank. In 1997 the owners of SFL club Clydebank, the Steedman family, sold the club's Kilbowie Park for £2.2m for development. The club became homeless and embarked on an ultimately fruitless search for a new ground. The Steedmans then sold the club to John Hall who tried to move the club first to Galashiels, and then to Dublin where he was rebuffed by the Football Association of Ireland (FAI). In 2002 Hall put the club up for sale. The SFL Secretary argued that after the sale of Kilbowie Park and the subsequent ground-share with Dumbarton and Morton, "much of the life went out of the club". The SFL then took a pragmatic decision to allow Glasgow businessman Jim Ballantyne to purchase Clydebank for £185,000, change the name to Airdrie United, and move the club to Airdrieonians old ground. Airdrieonians had earlier collapsed into insolvency and exited the league; ironically to be replaced by Gretna. Essentially Jim Ballantyne was able to buy, debt free, a merchandisable "franchise" SFL league place, much more cheaply than it would have cost to buy the original Airdrieonians. In all of this the biggest losers were the Clydebank fans, who first saw the ground of their beloved football club sold from underneath them, and then their club. With the support of the Supporters Direct organisation, the Clydebank supporters had in fact formed a co-operative, or supporters trust, called United Clydebank Supporters (UCS) as a vehicle to buy the club themselves, and had raised £170,000, but were outbid by Jim Ballantyne. They then went on to form a new fans-owned Clydebank as a junior club who now ground share in Duntocher and have average crowds of 300-500.

What these three, albeit extreme, examples illustrate is that the limited liability structure of ownership for a football clubs allows for the potential expropriation by a large or majority investor both of other investors, but more importantly of its other stakeholders too. While expropriation is usually thought of in terms of cash flows, the disappearance of a social and cultural institution which has been an integral part of a community might be considered the ultimate expropriation by many of a football club's stakeholders. More generally, the conventional limited liability model was never designed for relatively small-scale community-based enterprises like football clubs. In truth the conventional limited liability company only makes sense to many football club stakeholders if all / any profits are immediately ploughed back into the club.

Interestingly other countries have quite different models of football club ownership, both for large elite clubs and for smaller community-based ones. Elsewhere many clubs continue to be just that – 'association[s] of individuals in … way[s] that involve to some degree the factors of free choice, permanence, corporate identity and the pursuit as a common aim of some joint interest other than the acquisition of gain, such as those provided by membership of a trade union'[1]. Almost all of the British football clubs began this way. But while they converted to limited status, many European clubs have retained their traditional structures. The best known example is Barcelona, a club which is owned and run by its 142,000 members and which offers not just football but also other sports like handball and basketball. Other Spanish clubs, including Athletico Bilbao and Real Madrid are similarly structured. Some German clubs, including Hamburg SV and

[1] Martin, J.N. (1979), *Daly's Club Law*. London: Butterworths.

Schalke 04 are pure member associations, while others have a corporate and an association structure, but even here the company must be controlled by the members' association. Further afield, in South Korea, clubs in that country's professional K-League like Incheon United and Daejon are owned and supported by the local community rather than by *chaebols* (companies).

It is important to stress that such clubs are still competitive on their respective fields of play and are still managed in a business-like manner. For example, Barcelona is arguably as commercially focused as Manchester United. Moreover it is still possible for members' clubs to raise new investment from its members, but that investment is separate from the ownership of the club. The key difference is that the club's decision making is in the interests of its members rather than external providers of financial capital, whether those shareholders are corporate or individual. Moreover if people do not like the way a club is being run then they can vote the club leadership out. As such, therefore, they provide mechanisms for inclusivity, responsible representation and good governance. Of course the challenge for clubs in the FAPL, as well as for major clubs like Celtic and Rangers, is that the financial value of these clubs has been seen to act as an effective block to supporter ownership. That said, supporters of Liverpool FC have launched a scheme – ShareLiverpoolFC - which aims to provide democratic ownership of that club by its supporters. And there are now four supporter-owned clubs in the English Football League who utilise the supporters' trust co-operative model: Stockport County in League 1; Brentford, Exeter City and Notts County in League 2. In addition a number of other Football League clubs, such as Lincoln City have significant minority shareholdings by supporters' trusts. In Scotland Clyde is 50% owned by a supporters' trust.

The supporters' trust co-operative model, represents an evolutionary route to change in the ownership of football clubs via the Supporter Direct initiative (see www.supporters-direct.org). Back in 2000 the UK Government set up Supporters Direct to provide legal and practical support for supporters looking to form trusts as a vehicle to becoming actively involved in the ownership of their clubs. Two years later the Scottish Executive backed the initiative north of the border. Founded on a democratic, one-member, one-vote principle, trusts provide a collective structure through which clubs and their communities can influence behaviour and governance within their club. All trusts are set up as Industrial and Provident societies – co-operatives. Trusts are now in place at over 140 clubs across England, Scotland & Wales, with 100 of these clubs holding equity in the club. In thirteen of the clubs, the trust has a controlling shareholding, while eighteen clubs have supporter representation on the board of their club, where that representative is directly elected by the trust's membership.

Challenges exist for trusts, particularly in the extent to which trusts are and can be representative of the broader grouping of supporters and in respect of their legitimacy, particularly where they have low memberships. The trust movement has also been criticised by some on the left for being consumed by a business and consumerist ethic. It is indeed the case that it is consumerist in its inspiration; that inspiration being that of the original co-operative pioneers of Rochdale, who in the 19th century banded together to combine their purchasing power for the purpose of buying better quality food at affordable prices for working people facing cruel exploitation by unsrupulous merchants. In that sense the Supporters Direct initiative transcends New Labour, having its roots in the very beginning of the Old Labour & Co-operative movement. It is also the case that the trust movement has a business ethic, in the sense that they are concerned to manage their football clubs in a financially sustainable way; hardly a reactionary position.

Critics from within the traditional football establishment take a different line. In September 2007 former England and Leeds United manager Howard Wilkinson resigned from the Board of supporters' trust-controlled club Notts.County. He heavily criticised the supporters' trust model saying it did not work. His principal objection appeared to be that if a supporters' trust is in control then new private "investment" is deterred; but was another private investor owner gambling on future success what Notts County needed? A supporters' trust led coalition of investors had previously saved Notts County from collapse during financial administration; it is worth noting that since 1992 nearly 50 out of 92 English Football Leagues' clubs have been in administration, this in a period of stellar revenue growth. In response to Wilkinson's comments one, no doubt mischievous, poster on a Nottingham website called for one team in Nottingham. But there was a serious undercurrent. If a private owner acquired Notts. County could a merger proposal be ruled out. Only by having supporter ownership could such an option be categorically rejected and the demise of the founding member of the founding member of the English Football League be prevented in perpetuity..

Conclusion

Regardless of the ownership structure adopted the pressure to pursue success on the field of play builds in a propensity to gamble on player expenditure at any football club. But underpinning the trust model is the belief that football supporters underlying concern to preserve their club as an institution for community benefit and identity will be their first priority and they are therefore like to be more diligent guardians of their club's future, and its very existence, than private owners however benevolent. In doing so supporters' trusts offer an opportunity for organised collective action and ownership which is increasingly rare in an economy where the imposition of market mechanisms on every area of economic and social activity is becoming more pronounced. In doing so they represent a case of "back-to-the-future" with their commitment to the traditional co-operative ideals of Robert Owen and the Rochdale Pioneers. And the fact that they can compete in a market-driven environment is demonstrated by the fact that in the 2007/2008 season four English trust-owned clubs enjoyed promotion to higher leagues; Stockport County, Exeter City, AFC Wimbledon and FC United of Manchester (FCUM)

It is worth concluding with the story of FCUM, as it is an instructive example of what co-operatively owned clubs can achieve and their underlying ethos. Following the takeover of Manchester United by the Glazer family, such was the sense of disenfranchisement of one group of Manchester United supporters that they decided that for them the United dream had died. They decided to form a supporter-owned club, Football Club United of Manchester, or FCUM; a club they could really call their own. Their manifesto is the very embodiment of progressive political thought:

- The Board will be democratically elected by its members.
- Decisions taken by the membership will be decided on a one member, one vote basis.
- The club will develop strong links with the local community and strive to be accessible to all, discriminating against none.
- The club will endeavour to make admission prices as affordable as possible, to as wide a constituency as possible.
- The club will encourage young, local participation - playing and supporting - whenever possible.
- The Board will strive wherever possible to avoid outright commercialism.
- The club will remain a non-profit organisation.

Since their foundation FC United have been promoted to within two divisions of the English Football League, regularly attracting crowds of 3,000, and are prospering, confidently expecting to join the Football League in the not-to-distant future. In 2006, a *Daily Mirror* journalist reported from a Manchester United press conference (Mullock, S. (16th April, 2006). that:

> "…when given the chance to acknowledge the achievements of…[FCUM in being promoted]…Sir Alex Ferguson walked away from a press conference in some embarrassment."

A shrewd man, Sir Alex could recognise the real radicals when he saw them.

Notes

Deloitte, (2008). *Annual Review of Football Finance*. Deloitte: Manchester.
Mullock, S. (16th April, 2006). "Triumph of Heart and Soul". *The Daily Mirror)*
PriceWaterhouseCoopers. *Annual Financial Review of Scottish Football.* Season 2005/2006. PriceWaterHouseCoopers; Edinburgh.