

# The State of the Game

## The Corporate Governance of Football Clubs 2003



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# The State of the Game

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# Acknowledgements

This is the 3<sup>rd</sup> in our annual surveys of corporate governance at professional football clubs. One might expect some degree of questionnaire fatigue over time. We are therefore delighted to have received the highest number of returns yet. This is due not just to the existence of an increasing number of supporters' trusts, but also to the fact that the percentage returns from clubs, which was just over 40 per cent in 2001, and just over 50 per cent in 2002, reached 56 per cent in 2003. This is an impressive response rate to achieve for such a complex postal questionnaire. Our thanks therefore go to all the football club and supporters' trust secretaries who took the time and effort to complete and return these questionnaires. Particular thanks go to those who agreed to participate in follow-up interviews, especially Richard Lillicrap from the Swansea City Supporters' Trust.

We are aware of course that one incentive for clubs and trusts to participate in this sort of exercise is that the results may lead to practical advice and training in areas where the returns identify a need and appetite for this. We will ensure that this is done.

We are working particularly closely with trusts and clubs in the West Midlands, designing and piloting training material for trusts, and discussing funding streams and regeneration activities with clubs. In this work we are collaborating with colleagues from the Co-operative College, and we are grateful to Mervyn Wilson, Linda Shaw and Vipin Chauhan for this. We are also grateful for funding from the West Midlands Social Economy Partnership. There are far too many colleagues from the trusts and clubs in the West Midlands to be able to thank them all by name, but Joan Walley MP has been particularly energetic in bringing together all parties in the Burslem area, including Port Vale Football Club and the Vale Supporters' Trust (VaST). Duncan Drasdo deserves particular thanks for taking time out from running the Shareholders United Share Scheme to explain the mechanics of that operation to other trusts, as part of this West Midlands training initiative.

The supporters' trust movement would never have got off the ground if not for the co-operative movement, and in particular Peter Hunt, the national secretary of the Co-operative Party who commissioned the 1999 pamphlet on mutualising football clubs and who was then instrumental in the creation and launching of the Supporters Direct initiative. Peter is also Chief Executive of Mutuo, the think-tank for the co-operative and mutual sector. Mutuo have continued to drive the supporters' trust agenda forward, most recently with their *Back Home* report. We are therefore particularly pleased that Mutuo commissioned this *State of the Game* survey and report. The results certainly confirm the potential that exists for supporters' trusts and clubs to work together for their mutual benefit.

We are grateful to the Professional Footballers Association for once again sponsoring this work, and also to Grant Thornton for co-sponsoring. We are particularly pleased that Gordon Taylor was able to contribute a Preface to this report, and likewise that the Secretary of State for Culture, Media and Sport, the Rt Hon Tessa Jowell MP, who spoke at the Birkbeck conference that launched the 2002 *State of the Game* report, agreed to write a Foreword to this year's report.

That 2002 Birkbeck conference also heard from Derek Fraser, Chairman of the Independent Football Commission, and we are pleased to have been able to continue a constructive dialogue with the IFC over issues of football club governance, and we would like to acknowledge in particular Kate Barker (now Chair of the Finance Advisory Committee at the FA) and Chris Gamble, the IFC Company Secretary.

We have benefited from discussion with the FA and others over the introduction of a 'fit and proper person' test for football club owners and Directors. While this could prove a useful step forward, our survey results indicate, once again, that to be effective any such measure would need to be introduced as part of a more comprehensive regulatory review and reform. We are grateful, though, to these colleagues from the FA and elsewhere for this continuing discussion.

We would also like to acknowledge the continued productive collaboration that the FGRC enjoys with Cobbetts solicitors, in particular Jeremy Orrell, Adam Kaucher and Kevin Jaquiss, and the Pensions Investment Research Consultants (PIRC).

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Bridget Holroyd deserves particular thanks for assisting in the survey process.

Last, but by no means least, we are grateful to the students on our Sport Management & the Business of Football Master's programme who always give lively and informed feedback on our research, including this annual survey of the corporate governance of professional football clubs.

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November 2003

## Preface



**Gordon Taylor**  
**Chief Executive, Professional Footballers Association**

In my Preface to last year's *State of the Game* Report, I warned that football clubs needed to ensure proper corporate governance and business planning to remain on a sustainable footing in the face of the financial pressures that would be facing them. I have to say that this has proved all too true. Many clubs have struggled. Where necessary the PFA has stepped in to give what assistance we could, as have the supporters at many clubs. But what we need is for clubs to undertake proper risk assessment and financial planning, and to pursue partnership with their supporters and local communities in order to avoid these crisis situations from emerging in the first place.

It is therefore pleasing to read in this year's Report that increasing numbers of clubs do seem to be getting this message. Firstly, the clubs should be congratulated for having taken the time to respond to the annual *State of the Game* questionnaire. That a majority of clubs did so is testament to the important role that this annual report now plays. It is noteworthy that the response from Division 3 clubs was particularly strong, as it is at this level that immediate and substantial gains can be made from relatively small improvements in governance practice.

The proper response to the financial pressures following the ITV Digital collapse is for clubs to forge real partnerships with their supporters and communities. It is not just a case of what the local community can do for the club – in many cases the football club will be well placed to assist in the regeneration of the local community, forging stronger links with local business including the social economy. The stadiums can become a focal point for community and social enterprise activity. The PFA therefore welcomes the work that Mutuo have done to develop this vision, as spelled out in their *Back Home* Report.

We have also been pleased to support the West Midlands Social Economy Partnership's project to develop training for supporters' trusts, to improve their capacity to work with clubs and communities. This work has already delivered tangible benefits in terms of the strength of supporters' trusts in the region, and in laying the basis for genuine partnerships between club, community and the supporters to secure a sustainable future. In many cases, the football clubs are in areas in desperate need of regeneration. The partnerships that the West Midlands training project is forging could now form the basis for assisting in the regeneration of these local economies. This work needs to be taken further – both in the West Midlands and across the country.

I therefore welcome this Report and the work that has gone into it from clubs and supporters' trusts. It signals the way forward for the game.

**Gordon Taylor**  
**November 2003**

# Foreword



**Tessa Jowell**  
**Secretary of State for Culture, Media and Sport**

I am delighted to contribute this foreword to what will, I am sure, be an important contribution to the debate about the governance of football. The report provides a timely overview of how clubs are coping with the current demands involved in running the sport, and suggests a number of improvements to standards of corporate governance. These will provoke a great deal of debate, and I believe that it is vital that these discussions must include everyone with a stake in football – including supporters as well as clubs and governing bodies.

There have been major changes in the game in recent years. Supporters – who are, after all, the clubs' customers – expect to be treated fairly and in an open and transparent manner. They also expect to have a greater say in the running of clubs and to play a responsible part in the futures of their beloved clubs. The Government has shown its support for this through Supporters Direct, which encourages the development of partnerships between clubs and the supporters by offering support, advice and information to groups of fans wishing to get involved in the responsible running of their clubs.

However, the links between clubs and supporters need to be strengthened even more. As we know, football has had its share of troubles recently. However, we have also seen that where good partnerships exist, enormous benefits are to be found and problems can be solved or significantly lessened. Joint fundraising and wider community support can be vital to ensuring a struggling club's survival. Over the last couple of years a number of clubs have shown how important their supporters can be when things go wrong on the balance sheet.

I hope that this Report will help our clubs, and those associated with them, to explore how to develop these relationships further, to help ensure the long-term survival of clubs within their communities. It is only with this kind of sustainability that football can continue to develop strong community links for the overall benefit of the game.

In looking at possible ways to improve the running of football, *The State of the Game III* takes the desirability of those links as its starting point.

**The Rt Hon Tessa Jowell MP**  
**November 2003**

# Glossary of Terms

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

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

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

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

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

**Auditor:** an accountant who audits the company accounts.

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

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

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

**Combined Code:** a set of principles of good governance and good corporate practice incorporated into the listing rules of the London Stock Exchange.

**Companies House:** the registry for incorporated companies.

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

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

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

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

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

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

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

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

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

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

**FA:** Football Association.

**FAPL:** Football Association Premier League

**FRC:** Financial Reporting Council

**FSA:** Financial Services Authority

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

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



association with the company for more than 9 years.

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

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

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

**Local Strategic Partnership (LSP):** a non-statutory body, which aim to bring together at a local level a range of stakeholders – from the public, private, voluntary and community sectors.

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

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

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

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

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

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

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

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

**PFA:** Professional Footballers Association.

**PIRC:** Pensions Investment Research Consultants.

**PLC:** a public limited company.

**Proxy:** a person who is authorised by a shareholder

to vote at general meetings of shareholders in their absence.

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

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

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

**Share register:** a list of names of all shareholders.

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

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

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

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

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

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

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

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

# Executive Summary

Over the past year or so financial crises in both the corporate world at large – as exemplified by Enron and Tyco – and the football industry – exemplified by Leeds United’s announcement of record losses – have highlighted the importance of good corporate governance.

This report provides an analysis of the governance of professional football in England, focusing on:

- i governance by football’s regulatory bodies;
- ii the role of football’s stakeholders;
- iii the corporate governance of football clubs; and
- iv the role and governance of supporters’ trusts.

## **i Football’s Regulatory Bodies**

Our review of football’s governing bodies indicates that the FA is the only organisation that could genuinely be considered a governing body in the sense that it has overall responsibility for the game at all levels. The Football League and the FA Premier League represent only their member clubs. The influence of both the FL and the FAPL within the FA has hampered moves towards effective regulation of clubs by the FA.

## **ii Football’s Stakeholders**

The football industry is shaped not only by the official bodies, but also increasingly by stakeholders, including: supporters, local communities, sponsors, broadcasters, local authorities, national and international political institutions, players and even players’ agents.

The growth of supporters’ trusts is helping to formalise supporters’ involvement via trusts acquiring collective shareholdings and board representation. The influence of supporters’ trusts is growing at club level, but also through regional networks in the West Midlands, East Midlands, London and the South West. At four clubs in the Football League or Nationwide Conference the supporters’ trust has acquired majority shareholding in the club – Exeter City, Lincoln City, Chesterfield and York City.

Supporters’ trusts aim to strengthen the links between the supporters, the club and the local community. Our survey of supporters’ trusts found, though, that only 6 per cent had links with community groups, though 20 per cent had links with either social or mutual groups. Similarly, only 10 per cent and 29 per cent had links with ethnic minority groups and disabled groups respectively. Football clubs can bring benefits to local

communities, providing both employment opportunities and revenue streams. However, our research indicates that attaining these benefits requires strategic planning and networking activity by trusts. Realising these benefits therefore requires resources and support in the form of sector specific expertise and training.

The number of partnerships and joint initiatives between supporters’ trusts and clubs is increasing. At present, local authorities could be more actively engaged in these partnerships. Respondents to the supporters’ trust survey indicated that 39 per cent of trusts have links with the local authority, but only 29 per cent received any form of support from the local council.

Clubs can be catalysts for social inclusion and community-based initiatives, for example, through their work in the Football in the Community Scheme.

## **iii Clubs**

Analysis of our survey returns shows an improvement in some aspects of the corporate governance of football clubs. For example, a higher proportion of clubs are aware of their responsibilities to provide a copy of the share register to shareholders. However, there is still a significant number of clubs whose responses indicate that they are unaware of the requirements of Company Law on information disclosure to shareholders.

Moreover, while the vast majority of football clubs reported having little difficulty in providing supporters’ trusts and shareholders with information, supporters’ trusts were less satisfied with the current situation. This reflects a difference in perception as to the appropriate level of information disclosure and consultation.

An important information dissemination mechanism for clubs is the AGM. It is therefore a matter of concern that the White Paper on company law reform proposed to make it easier for companies to opt out of holding an AGM. If a new Companies Act retains this proposal, football authorities should lobby to get this removed. If such a proposal were to pass onto the statute books then FA and league rules should be amended to require clubs to hold AGMs.

In line with PIRC’s work on firms’ corporate governance practices, we found that most football clubs fall somewhat short of what might reasonably be expected. Clubs are particularly weak on the provision of adequate procedures for the appointment, induction

and training of Directors and use of non-executive and independent non-executive Directors. Only 31 per cent of clubs responding to our survey stated that there was transparent procedure for the appointment of new Directors and only 2 per cent of clubs stated that training was provided and required for Directors.

Levels of compliance with the requirements of the Combined Code on internal control and Audit Committees is much lower for listed clubs compared with all listed companies. Moreover, only 86 per cent of listed clubs and 48 per cent of all clubs responding to our survey indicated that the Board of Directors approved a 3 year business plan and only 26 per cent of all clubs indicated that they had carried out specific risk studies with assessment of impact.

While our analysis shows that there has been some improvement over the past three years and that there are a number of clubs following best practice, there is considerable room for improvement.

There has been widespread discussion around proposals for a 'fit and proper' test for owners and/or directors of football clubs. Such a move would be welcome, but would only have a significant impact if it were introduced as part of a wider package of governance reform. As part of this process there is much to be gained from the introduction of a code of corporate governance for football.

Such a code, tailored to the needs of the football industry, would help clubs improve their corporate governance structures and procedures which would in turn improve their corporate performance. The code would be fairly simple to design and the cost of implementing it would be low. Most importantly, unlike other forms of regulation where it is mainly third parties that benefit, the primary beneficiaries of a code of corporate governance for professional football clubs would be the clubs themselves. Supporters and stakeholders would also be likely to benefit.

Our analysis reveals that there are examples of best practice that can be found both amongst listed and unlisted clubs, large and small. These examples could be used to design a code with separate provisions for listed clubs, unlisted clubs, large and small, as well as for clubs owned by supporters' trusts. The code could be developed to take account of the particular role of stakeholders in football. It would also present the FA and the FA Premier and Football Leagues with the opportunity to set the standard in corporate governance of football at a time when UEFA is becoming increasingly pro-active.

#### **iv Supporters' trusts**

In the wake of the ITV Digital crisis and the waning of the transfer market, clubs need to find new revenue streams if they are to become sustainable enterprises. Our analysis shows that one means of achieving this is by forging partnerships with stakeholders that have the club's interests at heart. As community mutuals, supporters' trusts offer a vehicle to develop such partnerships in a sustainable and inclusive manner.

There has been considerable growth in the number of supporters' trusts and an increase in the number of trusts acquiring collective shareholdings, attaining representation on the board of clubs and developing new links with community groups.

Results from our survey of clubs indicate that following the collapse of ITV Digital, clubs have concerns over their own financial health. 65 per cent of clubs were 'quite' or 'very' concerned about the levels of debt in their club and 71 per cent found it 'quite' or 'very' difficult to maintain the solvency of the company.

Supporters' trusts have continued to contribute to the financial viability of clubs. 74 per cent of clubs structured as private limited companies have the power to issue new shares. Of these, 72 per cent had received financial support from supporters' groups, and 68 per cent of these had provided shares in return.

Average membership of supporters' trusts returning our questionnaires increased from 337 per organisation in 2001, to 467 in 2002, to 605 in 2003. Over the 2001 to 2003 period, the aggregate membership of supporters' trusts increased year by year from 6748 in 2001, to 17,749 in 2002, to 32,883 in 2003. If the 2003 figures are scaled up to reflect the total number of established trusts – 102 at the time of writing – then aggregate membership of trusts is now 65,766.

Many clubs would like to work with trusts on a variety of initiatives including: attracting corporate sponsorship (72 per cent); supporting youth development (78 per cent); encouraging social inclusion (83 per cent); supporting outreach work with local groups (72 per cent); working on projects with local schools (83 per cent); and strengthening the bonds between the club and the community (78 per cent).

Clubs would like advice on a range of issues

regarding joint initiatives and fundraising in general. 67 and 75 per cent of clubs regarded advice on encouraging social inclusion and on involving the community as being 'very useful' or 'crucial'.

Trusts have links with a wide range of community groups and stakeholders in their clubs – 55 per cent of trusts had links with local businesses, 77 per cent had links with other supporter groups, and 47 per cent and 57 per cent had links with the local authority and the local MP respectively.

Overall our results indicate that while the growth of trust activity has been significant, there is clearly room to develop further the bonds between club, trust and community, to the mutual benefit of all three groups.

## **Conclusion**

The supporters' trust movement has continued to grow. The number and size of trust ownership stakes in clubs is growing, as is the number of clubs with supporters on the Board, and the number of clubs undertaking joint initiatives with their supporters' trusts.

However, these developments put a greater onus on the trusts to ensure they themselves follow best practice in how they operate. This includes ensuring that all their board members are properly trained in the duties they need to carry out, and the tasks they might want to undertake to achieve the trust's ambitions. In the case of attaining trust representation on the football club board, it is important that any such Directors are properly trained in these duties. Our survey returns indicate that there is an appetite from trust members to undergo such training.

A further finding from the questionnaire returns, though, is that it is not just supporters' trust board members who need and desire more training. The degree of induction and training for football club directors is unsatisfactory and does not follow the recommendations of the Higgs (2003) report. This, together with improvements in business planning, risk assessment and internal control, needs to be rectified.

We found weaknesses in corporate governance, but also some progress. It may be that this annual process of surveying all clubs has itself assisted to some degree in making clubs aware of their duties and responsibilities, but it is also evident that there is considerable work to be done to bring standards of corporate governance at listed and unlisted clubs up to best practice.

These formal requirements should represent just the tip of the iceberg in terms of good practice. Real and active engagement with stakeholders, and in particular with supporters and the local community, that goes beyond the letter of the codes can bring significant benefits to clubs and supporters alike. Good practice in terms of disclosure and consultation are necessary but not sufficient. But the one can lead on to the other, particularly where there is an active and well-run supporters' trust prepared to initiate joint activities with the club. This is an important way of securing the long-term viability of clubs, building the supporter base and reaching new sections of their local communities.

# Football's Governing Bodies

The governance of English football consists of a complex web of organisations and interests, some officially recognised and endowed with the powers of regulation and governance. Other individuals and institutions have varying degrees of influence and power, with key interests, but are formally disenfranchised from the decision-making process.

The governance of football in England differs markedly from governance elsewhere in Europe. In Germany for example, the national association controls the entire game including the operation of the domestic leagues. In England, the existence of separate governing bodies reflects the historical birth of the game in which the Football League (FL) was formed separately from the Football Association (FA) in order to give the earliest clubs formed, represented by the founder members of the FL, the opportunity to compete regularly with each other in an integrated competition. The map of governance was further complicated by the formation of the FA Premier League (FAPL) in 1992. Whilst the FAPL was set up under the ultimate jurisdiction of the FA, it has developed both a high degree of independence and considerable influence within FA structures. In theory though, the FA remains the overall governing body and regulator of the game, with the leagues subordinate to it.

This chapter looks at these three organisations that govern the professional domestic game. It reflects on the standards, and changing trends in football governance in relation to wider socio-economic trends. It also considers the governing bodies' organisational objectives.

## 1.1 The Football Association (FA)

The FA, founded in 1863, is the world's oldest football governing body. The organisation emerged out of the English public schools and Oxford and Cambridge Universities – institutions that promoted the concept of 'Muscular Christianity' through amateur participation in sport. The formation of the FA in 1863 served to codify the rules and regulations of the game itself, and secured the position of the organisation as the sovereign governing body of English football, a position it maintains today.

Football soon developed from being a preserve of the educated and privileged classes to the dominant cultural expression of the working class. The emergence of football as the pre-eminent socio-cultural phenomenon of the twentieth century both in Britain and abroad is well chronicled in academic as well as pop-

ular literature (Walvin, 1994; Mason, 1980; Russell, 1997).

The objectives of the FA are wide ranging, but its position at the summit of the governance of the domestic game is perhaps best articulated in its second listed objective: 'to promote the game of Association Football in every way in which the The Association or The Council of the Association shall think proper' (The Football Association, 2002, p. 33). Within that remit, the FA now controls eight competitions, has responsibility for the national team, and is responsible for the development of grassroots football. As far as the governance of the domestic game is concerned, perhaps the most significant point is that the FA has never been responsible for the organisation of league football, in spite of the fact that the FAPL has nominally operated under its auspices. As a consequence there has been a simmering tension between the FA and the FL over the course of the last century, and since 1992 between the FA and the FAPL in particular.

Additionally, the FA has always had responsibility for both the amateur and professional game. Indeed, the amateur origins of both the game and the organisation have ensured that the protection, promotion, and governance of the amateur game have been as important as the more high profile professional game. For much of the FA's lifespan, balancing these two responsibilities has been relatively uncontroversial. More recently, however, organisational tension has grown.

The 38 constitutional objectives of the FA are wide ranging and can be drawn out of the Memorandum (The Football Association, 2002, pp. 33-37). They include, for example, controlling and regulating the domestic game, the registration of players and clubs, and administering competitions. However, a more succinct and accessible articulation of the FA's objectives can be found in the FA Handbook rather than by reference to the memorandum of association:

- To govern the game with consistency and integrity
- To help ensure the long-term financial viability of the game as a whole
- To help lead the development of a grassroots strategy, and improvements in facilities, which achieves the highest levels of quality participation in the world
- To achieve consistent, long-term success on



the field through coaching, education, and player development at every level.<sup>1</sup>

### 1.2 The Football League (FL)

The Football League (FL) is the oldest league in the world. The organisation was formed in 1888 to provide regular competition for the many clubs that had been established during football's initial growth period in the second half of the nineteenth century.

In many ways, the FL has been characterised historically by its position in relation to the FA. In contrast to the more aristocratic roots of the FA, based in the south of England and steeped in the amateur ethos of the public schools, the growth in popularity of the game in the Midlands and north of England created a number of new imperatives. Firstly, the clubs required a formalised structure of competition, to allow for regular games between clubs. This new structure also allowed for the clubs to move towards consolidating a professional ethos that saw the game develop rapidly as a spectator sport. The FL was formed by the tradesmen and merchant owners of the new football clubs, looking to satisfy their requirements.

The divided governance framework of football is therefore the historical legacy of the emergence of the codified game in the second half of the last century. It has been characterised by the contrasting ethos – and the different roles – of the two organisations. For the majority of the 20<sup>th</sup> century, these organisations co-existed, but frequently with mistrust and concern over divisions of authority.

Whilst the attitude of the FA to professionalism and commercial progress has moved with socio-economic trends, it remains responsible for the game as a whole, from the England team to the grassroots game. The FL, on the other hand has always been concerned specifically with the interests of its 92 – and from 1992, 72 – professional league club members. The objectives of the FL are stated as follows:

- To be a governing body for Member Clubs and to represent the interests of the game of association football, the League and Member Clubs
- To organise annual league competitions for Member Clubs and annual cup competitions, inter-league competitions or matches and small side games

- To regulate the activities of Member Clubs and annual cup competitions
- To provide registration, pension scheme (which includes insurance and benefit of any kind) and other administrative functions to clubs and players of association football
- To carry on or participate in any business or other activity which, in the opinion of the Board may conveniently be carried on in connection with any of The League's objects as set out in clause 3 above.<sup>2</sup>

### 1.3 The FA Premier League (FAPL)

The governance map of English football was complicated further by the formation of the FA Premier League (FAPL) in 1992. The Hillsborough tragedy had provided the impetus for restructuring the game and its decrepit infrastructure, and the top clubs utilised the opportunity to promote a breakaway top division, in which any broadcasting revenues would be controlled solely by the new FAPL. The FA, looking to re-establish its authority at the expense of the FL, justified the initiative in the now infamous *Blueprint for the Future of Football*, on the basis that it would both secure the authority of the FA and also place the England team at the apex of the pyramid (The Football Association, 1991).

Like the FL, the FAPL exists to serve the requirements of its member clubs and this is reflected in the objectives of the organisation (The FA Premier League, 2002, Memorandum of Association, pp. 1-2). Like the FA, the objectives are wide ranging and comprehensive, but the key elements can again be identified in the Memorandum (to organise the competition of the top division; to enter into broadcasting contracts; to publish rules and regulations). Similarly, the organisational interests are also reflected in the Chairmen's Charter published in the Premier League Handbook. The Charter states that chairmen will ensure that clubs:

- Behave with the utmost good faith and honesty to each other, do not unjustly criticise or disparage one another and maintain confidences
- Will comply with the laws of the game and follow Premier League and FA Rules not only

<sup>1</sup> The Football Association (2002), p. 7.

<sup>2</sup> The Football League (2003), p. 93.

## 2 Football's Governing Bodies



to the letter but also to their spirit, and will ensure that our club and officials are fully aware of such rules and that we have effective procedures to implement the same

- Will respect the contractual obligations and responsibilities of each other's employees and not seek to breach these or to make illegal approaches
- Will discharge their financial responsibilities and obligations to each other promptly and fully and not seek to avoid them
- Will seek to resolve differences between each other without recourse to law.<sup>3</sup>

The Charter illustrates the purpose of the organisation. Whilst the FA seeks to govern and regulate on behalf of the entire game, the FAPL exists to organise the activities, and maximise the potential of its member clubs. However, the changing role and growing confidence of the FAPL in the governing sphere is perhaps more realistically reflected in the 'Vision' of the organisation as set out on the FAPL website. The organisation points to its role in the wider governance of the game, and how it can affect issues not strictly related to the FAPL's constitutional objectives. For example, 'Our Vision' refers to the requirement of the FAPL to 'use our power and influence responsibly to improve the game in this country and abroad and through partnership with the FA, UEFA and other bodies'. It also states that the clubs must 'Use our resources to develop playing talent that will provide for international success with the England team at all levels – with the status of World Champions being the realistic goal.'<sup>4</sup>

#### 1.4 Developments in the governance of English football

The previous two *State of the Game* reports (Hamil *et al.*, 2001; FGRC, 2002) and Chapter 3 of this Report concentrate on the corporate governance of football clubs. It is the purpose of the current chapter to instead consider the structures that inform the work of the game's authorities.

The organisation and administration of football's governing bodies differ markedly from that of clubs. Clubs are structured in the main as either private or public limited companies, under the ownership of individual shareholders or institutional investors. The governing

bodies are, by contrast, owned by 'members' and 'representatives' rather than by shareholders with a capital investment. Those members and representatives are then normally responsible for electing officials to govern and manage the bodies in question. This extra political dimension defines and characterises sports' governing bodies, shaping organisational culture and governance structure.

The FA is the only organisation that could genuinely be considered a governing body in the sense that it has overall responsibility for the game at all levels. The FL and the FAPL represent only their member clubs. Any analysis of the corporate governance and management of the governing bodies needs to be measured against the objectives of the organisations themselves. Is there an appropriate structure in place to achieve these objectives? Does it allow the organisation the flexibility to make effective decisions? Does it protect the game from the ever-increasing pressures from commercial imperatives?

#### 1.5 The FA and the management of change

For the majority of the 20<sup>th</sup> century, the FA and FL co-existed, not without argument and debate, but with at least a tacit understanding of each other's roles. The governance map of English football has been fundamentally altered by the formation of the FAPL, and subsequently by the structural changes within the FA that have accommodated the FAPL within its governance mechanisms.

Since the formation of the FAPL, the governance structures of English football have been characterised by friction, competition between vested interests for financial resources generated by the domestic game, and disagreement between institutional representatives and management.

These changes have reflected the growing importance of the commercial demands of particular stakeholders, and the increasing dominance of the professional game. The constitutional structural changes that have taken place in the FA, have resulted in a *de facto* shift in power to certain representatives within the organisation. The creation of the FAPL reflected the changing commercial demands of the industry, and the need for clubs to regenerate the top of the domestic game. It would be naïve to suggest that the FA could withstand these wider socio-economic trends and market imperatives. Nevertheless, whilst accepting that the FA is subject to such trends, and that limitations on the ability to *prevent* change exist, the emphasis is still on the FA to *manage* that change effectively. It is

<sup>3</sup> FA Premier League (2002).

<sup>4</sup> [www.premierleague.com](http://www.premierleague.com): 'Roles and objectives'.



through analysing the management of re-structuring that we can assess the reasons for the failure of the organisation to achieve its objectives as laid out in the *Blueprint*.

### 1.6 The growing influence of the FA Premier League: the reasons

The formation of the FAPL in 1992 was driven by the coterminous requirements of the FA to reassert its authority over the FL, and the desire of the top division clubs to command a greater share of the revenues generated by broadcasting.

The formation of the FAPL was formally endorsed by the FA in their document *The Blueprint for the Future of Football*. The document states:

“The future of football depends, fundamentally, on confirming and strengthening the position of the Football Association as the government of the game in England. All other Associations, Leagues and Clubs should be subordinate to the Football Association. Historically, there has been a constant power struggle between The Football Association and the Football League. The effect of that lack of unity has been to undermine the government of the game to the disadvantage of football as a whole, including the Football League. The Football League, in its publication, ‘One Game, One Team, One Voice’, presented a case for an equal share of power with the Football Association. That proposition has been rejected by the Football Association and properly so. (The Football Association, 1991, 4.1)

Rather than intending to create a new and powerful rival voice in the governance of the game, the *Blueprint* actually sought to buttress the authority of the FA by bringing the top division under its auspices. The second objective of the formation of the FAPL was to pre-empt a breakaway top division formed for commercial purposes, and secure the position of the England team at the apex of the football pyramid:

The establishment of a Premier League within the Football Association’s administration has to be considered first, in relation to the achievement of our purpose – that of establishing the Football Association as the Government of the game in England: second, in relation to our prime objective of establishing the England Team at the apex of

the pyramid of playing excellence. These two factors outweigh all other considerations. (The Football Association, 1991, 4.5.3)”

The FA has failed to achieve either of these objectives central to the formation of the FAPL. In order to understand the reasons why this is the case, it is necessary to examine the development of the FAPL and FA structures since the formation of the FAPL.

### 1.7 The structure of the FA Premier League

The FAPL is owned by its twenty member-club shareholders. Each shareholder is entitled to one vote and all rule changes and major commercial contracts require the support of two-thirds of the clubs voting at a general meeting. The FAPL comes under the jurisdiction of the FA and must submit its rules each year for approval and sanction.

The reasons for the growing influence of the FAPL lie in the way it was formed, and in the changing structures of the FA itself in accommodating the representation from the FAPL. The *Blueprint* set out the intentions of how the FAPL would be incorporated in the overall administration of the game by the FA: ‘The Premier League will be ‘governed’ by a committee of the Football Association which will comprise representatives of the clubs in the Premier League and the Chairman and Chief Executive of the Football Association’ (The Football Association, 1991, para. 4.8.5). The *Blueprint* also maintained that, ‘the administration [of the Premier League] will be contained within the structure of the Football Association and will be established at 16 Lancaster Gate (The Football Association, 1991, 4.8.6).

Despite the intentions of the *Blueprint*, the formation of the FAPL did not adhere to the recommendations as laid out. For example, the *Blueprint* envisaged that the Premier League would be ‘a much more inherent part of The FA than it became’ (Graham Kelly in Singer and Friedlander, 1999-2000, p.12). The Premier League also turned out to be bigger than planned. As former FA Chief Executive Graham Kelly has stated: ‘when the Premier League was established, it wasn’t set up in the way we had envisaged’ (Singer and Friedlander, 1999-2000, p. 12).

Within the constitution of the FAPL, the FA is issued with what is called the ‘Special Share’. The Special Share gives the FA a veto over a number of constitutional areas. They include: the company objectives as set out in the Memorandum of Association; the issue of shares; the number of directors, the appointment of directors; adherence to the Rules of the Football





Association; the winding up of the Company; the name of the company and the League; issues of promotion and relegation; membership of the League; the scheduling of matches in relation to international fixtures; and obligations to enter the FA Cup (The FA Premier League Articles of Association, 2002, p. 5).

Whilst the FA as a 'Special Shareholder' retains a veto over certain Articles and Memorandum of the FAPL, that influence does not extend to any tangible day-to-day influence over the governance and management of the FAPL. Whereas it was intended that the organisation would be governed by an FA committee, the Board of Directors of the FAPL is composed of a non-executive Chairman (David Richards) and the Chief Executive (Richard Scudamore), with no FA representation.

The Board are under the strict control of their members. According to section 46 of the FAPL Articles, 'the affairs of the Company shall be managed by the Board subject always to any directions from time to time given and any policy resolved upon by the Members in General Meeting' (FAPL Articles of Association, 2002, p. 14). Only representatives of the member clubs are entitled to vote at General Meetings, and the FA as 'Special Shareholder' has no right to vote, and no right to participate in either the capital or the profit of the company (FAPL Articles of Association, 2002, p. 6). Again this is at odds with the recommendation in the *Blueprint* that advocated, 'a new department ... to integrate the commercial initiatives of both the Football Association and Premier League, (The Football Association, 1991, para 4.13.11). The powers within the FAPL lie almost exclusively in the hands of the twenty member clubs, and are far removed from any control by the FA.

### **1.8 The representation of the FA Premier League within the FA**

The power and influence of the FAPL has been consolidated by the integration of the FAPL representation into the structures of the FA itself. Prior to the structural review of the FA in 1999, the organisation had long been criticised for reactive decision-making, being unresponsive to stakeholders, and lacking a coherent vision to drive the sport forward (Conn, 1997). The Council, and committees nominated by the Council, dominated an organisation characterised by the amateur ethos of the county associations.

The Council remains the sovereign body and is currently comprised of 86 members including representatives of the FA Premier League and the Football

League, and the County Associations (Football Association, 2002, pp. 58-59). In 1999 the Council had certain powers removed, including 'the power to make any decision (including any decision which purports to be binding on the company) in relation to any financial or commercial matter or other business matter or which has any financial or commercial or other business effect unless specifically authorised to do so by the board in accordance with these articles'.

These powers of the Council were transferred to a newly created 'FA Main Board'. The creation of the Main Board was, according to new chairman Geoff Thompson, 'to provide a focus for taking important financial and commercial decisions' (Football Association, 2002, p. 5). This was accompanied by the creation of the National Game Board (NGB) to take 'responsibility for promoting policies to develop football at every level outside of the professional arena' (Football Association, 2002, p. 5). Despite the creation of the NGB, the changes at once increased the influence of the professional game within the organisation.

The FA Main Board consists of the Chairman, six representatives of the National Game, six representatives of the Professional Game (two from the Football League and four from the Premier League) and the Chief Executive (Football Association, 2002, pp. 52-54). The Board guides the direction, mission and strategy of the organisation. The implementation of the strategy is the responsibility of the management team led by the Chief Executive.

The new Main Board has helped the organisation streamline decision-making, and contributed towards the successful drive to raise FA revenue. However, the structural changes within the FA have also consolidated the role and influence of the FAPL and its representatives. Whilst the division between the amateur and professional game is reflected in the structure of the Board, the professional game amounts to one aspect of the FA's responsibilities. With four Premier League representatives to the Football League's two, despite representing only 20 of the 92 professional clubs, the influence of the Premier League is entrenched. Rather than consolidate the authority of the FA, the FAPL has become one more rival to its authority – and is wealthier, more influential, and more commercially driven than the FL. If one adds to this the 'special share' issued jointly to the FL and FAPL following the formation of the FAPL, giving the leagues power of veto over important aspects of the FA's constitution, then it is easy to see why former Chief Executive Graham Kelly, who played an influential role in the formation of the FAPL, would suggest



that 'the authority of the Football Association has never been weaker'.<sup>5</sup>

### 1.9 The growing influence of the FA Premier League: the consequences

Given that the formation of the FAPL has had such an impact on domestic football – in both financial and governance terms, it is important to assess how this has been manifested. The root of many issues affecting the governance of the English game is how the influence of the FAPL within the structures of the FA has compromised the ability of the key authority to govern neutrally on behalf of the entire game, as opposed to on behalf of powerful vested interests.

Taylor has rightly noted that a cardinal principle of regulation is neutrality in the application of power and influence (Taylor, 2000, p. 58). However, the FAPL has not only assumed an independence of its own that has enabled it to act with great confidence, and outside the *de facto* control of the FA, the individual representatives within the FA structure are governing increasingly with their personal and institutional interests in mind, rather than with a view to the core objectives of the FA. This has manifested itself in a number of ways.

#### 1.10 Compromising the fortunes of the England team

The influential role of the FAPL in the FA's decision-making structures is perhaps no better evidenced than in the emphasis placed on the England team. The *Blueprint*, as mentioned, advocated the formation of a FAPL on the basis that it would consolidate the position of the England team at the apex of the pyramid. Similarly, and as expected, the success of the national team also forms a key element of an FA core objective: 'to achieve consistent, long-term success on the field through coaching, education and player development at every level', with 'the aim of winning the World Cup by 2006' (The Football Association, 2002, p. 7).

It is becoming increasingly apparent that the interests of the FAPL do not necessarily coincide with the interests of the England team. Firstly, the FAPL continues to consist of twenty clubs, compared to the eighteen that was recommended to aid the national side. Furthermore, whilst the England team now has more preparation time through the introduction of free

Saturdays, the utilisation of club players for international fixtures remains a serious point of conflict. According to David Dein, vice-chairman of Arsenal FC:

"We pay the players, we are in command of players' salaries. They work for us first and foremost. We are happy to release them but under reasonable circumstances. I think within the next twelve months we will see a total revolution when it comes to the fixture calendar, there has to be. If it doesn't you'll find that the clubs will flex their muscles and say we are not going to release our players."<sup>6</sup>

As well as demonstrating the failure to achieve the *Blueprint* objective of placing the England team at the pinnacle of the pyramid, Dein's view more significantly reveals the conflicts of interest that characterise the internal governance structure of the FA. David Dein, the vice-chairman of Arsenal, is also a vice-chairman of the FA, a member of its Council, a member of the FA Main Board, and a member of the FA International Committee. Yet the view expressed seems decidedly at odds with FA rule D2, which states: 'A club should do all things necessary to ensure that a Player referred to in Rule D1 above [a player selected for international duty] complies with the arrangements of the Association' (The Football Association, 2002, p. 85). It would also transgress the FIFA rule that states that national bodies should not have to pay for the services of players on international duty.

It is difficult to conclude that Dein's priority lies with the FA, rather than with Arsenal, the club of which he is a director and significant shareholder. This view is typical of the top clubs concerned about the fitness of players for forthcoming club fixtures, but it is far removed from both the ideal and practical objectives of the *Blueprint*. The position of FAPL representatives is hopelessly compromised.

#### 1.11 Conflict between management and board

A key to good corporate governance in a sporting body is an effective understanding of the division of responsibilities between the board and the management team. Whilst the breakdown of responsibility within the organisation is reflected in the Articles of Association, the board has the power to assume the powers of management as required, thus giving the board the ability to override management at any moment it should choose. Of course, the composition of the FA

<sup>5</sup> *Supporters Direct Newsletter*, Issue 12, 'The Supporters Direct Interview: Graham Kelly', October 2003.

<sup>6</sup> 'Football: Club or Country', BBC Television broadcast, 25<sup>th</sup> March 2003.



needs to recognise the rights of members in the running of the organisation, and delineation between board and management is not so easily achieved in a governing body in which various strands of representation are required. Managers are neutral but unrepresentative, whereas representatives lack independence but represent interests integral to the game. Resolving this tension will always be problematic.

The moves at the end of 2002 towards forming a 'Professional Game Board' (PGB) with responsibility for all matters concerning the professional game, resulted in the resignation of Adam Crozier. Crozier's refusal to accept the formation of the PGB, and disagreement over where responsibility for its formation lay, demonstrated, despite changes in the structure of the FA to streamline decision-making, the failure of the organisation to effectively delineate the governing imperatives of the board and the responsibilities of management. There was criticism of Crozier's autocratic management style.<sup>7</sup> However, a board should take care not to confuse an executive officer's management style, with an evaluation of performance. Moreover, the power balance within the FA was at the heart of the dispute. The accusation of a lack of consultation would have had little or no weight had the FAPL not gained such influence within an organisation, in which neutral governance is a necessity.

In any organisation a clear demarcation between strategy and implementation may sometimes be difficult to identify. But the inability of the FA to resolve the internal dispute without the loss of an effective administrator, represents a failure of boardroom leadership.

The lack of co-ordination between management and board can also be seen as a factor in the recent concern over the FA's financial position. Crozier had successfully driven revenues up, through maximisation of the FA's key assets. Nevertheless, his departure saw the FA engage in a financial repositioning that saw staff redundancies and departmental cost-cutting, putting core projects such as the National Football Centre at Burton-on-Trent at risk. Crozier (and Wembley Stadium) bore the brunt of the criticism for the financial instability, but the measures taken were driven by those widely regarded to have engineered his dismissal, and who resented what they saw as the FA becoming a commercial rival to the clubs they represent.

<sup>7</sup> See Kelso P and Brodtkin J, 'Chairmen condemn Crozier era' in *The Guardian*, November 8th 2002; Campbell D, 'Premier League flexes muscle in Crozier clear-out' in *The Observer*, November 3rd, 2002; Hayward P, 'Premiership clubs frantic for FA loot' in *The Daily Telegraph*, 1st November, 2002.

### 1.12 Balancing organisational objectives: the professional game versus the grassroots

Crozier's resignation also reflected the growing power of the professional clubs vis à vis the amateur game. The declining level of independence in the decision-making process has compromised the ability of the FA to balance its organisational objectives. Whilst assessing the relative emphasis the FA places on each of its core objectives may be difficult to gauge, there is a distinguishable trend that places the interests of the professional game, and particularly the clubs of the FAPL, above those of the lower leagues and the amateur game.

Whilst the creation of a PGB was justified by reference to the formation of a National Game Board in the 1999 restructuring, representatives of the FAPL have been increasingly concerned that the FA has increased revenue through the use of 'their' assets, namely the top players in marketing ventures, and through FAPL clubs and players participating in the FA Cup and England fixtures. Similarly, there is little doubt that professional representatives within the FA saw the increased commercial activity under Crozier as undesired competition for revenues that the clubs expected to secure for themselves. A PGB would have the capacity to remedy this by gaining control over 'professional' activity. In turn, this would endow the professional game with greater leverage over the vast sums it generates, which have traditionally been used to invest in the grassroots.

The shift in emphasis can already be seen in the altered payments and prize money for this season's FA Cup in order to help stabilise the FA finances. The prize money for teams reaching the latter stages has been frozen, whilst for teams going out between the first qualifying round and the second round proper, payments have been reduced. Whilst prize payments for the Vase and Trophy have increased, the overall burden will fall more heavily on the semi-professional and lower FL clubs.<sup>8</sup>

### 1.13 Regulation and compliance

The influence of both the FL and the FAPL within the FA, has also hampered the moves towards effective regulation of clubs by the FA, and drives towards improving the standards of financial management. Club influence has compromised the ability of the FA to achieve two of its stated core objectives: to govern the game with consistency and integrity; and to help

<sup>8</sup> [www.thefa.com](http://www.thefa.com)



ensure the long-term financial viability of the game as a whole.

A number of reports into the regulation of football have recommended that the FA introduce compliance mechanisms, in order to ensure the financial stability and integrity of the game (Smith, 1997; The Football Task Force, 1999). Yet recommendations contained within these reports have been either implemented in a diluted form, or simply ignored. For example, Sir John Smith recommended in his report that the FA introduce a Financial Compliance Unit, with the power to investigate clubs and ensure good financial practice. The Football Task Force also made similar recommendations. Eventually the FA introduced a version of the recommendations in the form of the Financial Advisory Unit (FAU). Similarly, the Football Task Force also recommended the introduction of an 'ombudsman' for investigating complaints, and a 'Football Audit Commission' with the power to investigate and sanction. Self-regulating bodies such as the FA, are prone to resist attempts at external regulation, but this does not fully explain the reluctance to set up procedures to ensure that the FA achieves its key objectives.

There are signs, though, that the FA has begun to take regulation more seriously. The Independent Football Commission, for example, reported that the FAU had enjoyed 'some successes' (IFC, 2002, p. 44), and a Financial and Compliance Committee has been set up under the chairmanship of former IFC commissioner Kate Barker with the remit of investigating the possibility of a 'fit and proper person' test. Nevertheless poor standards of financial management and governance, concern about the motivations of club owners, and lack of effective regulation continue to be characteristic of the industry. Much of the explanation for this lies in the individual and institutional representatives that hold influential positions within the structure of the FA. The representatives of the FAPL and FL clubs are faced with the decision as to whether to introduce greater regulation and restriction on themselves and their clubs. The response has been to resist such initiatives, and the reasons for this may range from an inherent aversion to external interference, to concerns about what robust regulation and external intervention might reveal.

Independent investigation by the author and journalist Tom Bower drew attention to the nature and prevalence of payments to agents, reinforced by revelations concerning Harry Kewell's transfer from Leeds United to Liverpool in the summer of 2003, and the inability of the governing body to control and regulate such

payments. Similarly, the removal of Compliance Officer Graham Bean from the FA's payroll also posed questions about the seriousness with which the organisation takes its regulatory role. Furthermore, a combination of circumstances has led to a record number of clubs entering administration. Whilst clubs could not have anticipated the collapse of ITV Digital (although a number of specific club chairmen were actually responsible for the deal that failed to include parent company guarantees), the failure to effectively regulate issues of governance and financial management is a key factor that has caused crises to emerge at clubs such as York City, Wimbledon, and Luton Town. That Notts County, the world's oldest club, and founder member of the FL, is in administration and under threat of closure and expulsion from the FL, whilst individuals and consortiums wheel and deal over the club's future is a damning indictment on the self-policing capacity of the professional game. That the most significant drive towards compliance and financial sanity has come from UEFA through its licensing programme is also a reflection on the lack of impetus given by the domestic governing bodies. The lack of enthusiasm for robust regulation and scrutiny of clubs' affairs underlines the need for greater transparency and probity. Clubs have consistently hidden behind the smokescreen that they are 'independent autonomous businesses' that are already regulated by company law, and subject to other codes of governance. This ignores both the specificity of football in relation to other industries, in terms of the high profile of the game, the contrasting imperatives between sporting organisations and conventional businesses, and also fails to recognise that clubs are part of a wider governance and regulatory framework under the jurisdiction of the FA.

#### **1.14 Other trends in football governance**

The wealth and influence of the FAPL has also had a consequential effect on other governing organisations in English football. The last two years has seen the introduction of the IFC to the governance structure. Although the IFC has no power to charge or sanction, and therefore no power to translate its recommendations into concrete improvements in governance and regulation, it has provided in its first Annual Report, a considered articulation of some of the issues that the governing bodies should address (The IFC, 2002).

More significantly, the structures of governance within the FL have come under increasing scrutiny, particularly in the aftermath of the collapse of the broadcaster ITV Digital. The situation brought to a head the internal divisions within the FL, which focussed partic-



ularly on the relative influence of the clubs in each of the three divisions. The recent changes in the management structure of the FL can also be seen in the context of the commercial domination of the FAPL. The revenue generated for the FAPL through broadcasting contracts with BSkyB, distributed almost exclusively between its twenty member clubs,<sup>9</sup> has opened up an almost unbridgeable financial chasm between the top two divisions. The latest Deloitte & Touche report noted that the combined turnover of the FAPL was nearly four times that of FL Division One (Deloitte & Touche, 2003, p. 23).

The consequence of this has been the growing call for restructuring within the FL itself. Informal proposals have concentrated around the formation of some kind of second tier of the FAPL, popularly referred to as the 'Phoenix League', and have also advocated the incorporation of the Glasgow clubs, Rangers FC and Celtic FC. Needless to say this would subvert both the philosophy and practical operation of FA and FL rules that protect the meritocratic principle that informs the domestic pyramid. Ironically, the arguments mirror those evident prior to the breakaway of the FAPL in 1992, notably, the need of the 'bigger' clubs in the first division to have a greater control of the revenues in order to 'compete'. In this context, it seems remarkable that the larger FL clubs have considered another breakaway to be a new panacea.

The demands of Division One clubs may not have triggered another restructuring of leagues, but they have prompted changes in the internal management structures of the FL. The recent EGM of the FL in September 2003, rubber-stamped a new management structure in which a three-man team will answer to the FL Chairman Sir Brian Mawhinney. The management team will consist of the FL's Director of Operations, the Commercial Manager and a newly appointed Division One Managing Director. The change, which will give the First Division greater influence within the FL in relation to the Second and Third Division, reflects the growing desire amongst representatives of the larger clubs, to command a greater degree of the available revenue, in order to close the financial gap on the FAPL. This change will be accompanied by new marketing initiatives with the aim of realising more value from the FL.

It is doubtful whether either of these initiatives will offset the growth in finance and influence of the FAPL. Whilst the financial gap may close a degree between the top two divisions, this may cause further inequality

between the lower divisions. Additionally, whilst the FL may be able to maximise further its commercial potential, the all-consuming commercial domination of the FAPL, and the media attention it generates, relegates the FL to the status of a distant cousin, fighting for the scraps of the broadcasting monies and commercial sponsorships available.

The financial problems facing clubs in the lower divisions, including those relegated from the FAPL to Division One, has generated a regulatory response from the FL with the aim of improved governance. The AGM of the FL in June 2003 saw the introduction of a 'salary cost management system' in Division Three. Clubs will need to spend less than 75 per cent of total income on wages, with no more than 60 per cent on playing staff. The aim is to 'ensure that clubs live within their means by bringing their total wage costs into line with income' (Football League, 2003, p. 5).

At the recent EGM, a new insolvency policy was introduced that will see clubs entering administration punished by the deduction of ten points from the start of the 2004/05 season. The argument in favour of such a rule centred around the promotion of Leicester City to the FAPL, at a time when it was writing off debts, thus giving the club an unfair financial advantage over others. It could be argued that such a sanction may compound financial problems by leading to the relegation of a club already in difficulty (with the concomitant reduction in revenue). It may also be suggested that the sanction will be wrongly targeted at clubs where owners and administrators have little interest in the financial well being of the club. However, clubs in administration do bring the game into disrepute by disregarding their debts to businesses outside football. This undermines the integrity of the game and is justification in itself for a sporting sanction. The ruling would be more effective, though, as part of a wider strategy of financial regulation. Nevertheless, the measure at least reflects a recognition that clubs need to be more financially responsible, and places emphasis on the need for improved governance.

This new regulatory provision has also been accompanied by the introduction of 'parachute payments' to clubs relegated from Divisions One and Two. Whilst this is a recognition by the FL of the growing financial gaps between divisions, it may not be unrelated to the change in management structure, which could improve the financial fortunes of Division One clubs, but widen the gap between Divisions Two and Three.

It is interesting in itself that the FL has moved more rapidly to address the worsening financial problems

<sup>9</sup> Clubs relegated from the FAPL also receive 'parachute payments'.



experienced by clubs than has the FA. Whilst this reflects what should be an obvious concern by the FL for its members, it also reflects differences in the structures of the organisations themselves. Whilst decision-making at the FA is hindered by its broader remit, the internal competition of vested interests, and its constitutional structure, the FL is able to take decisions more decisively with its own interests in mind. Also, the FL board is drawn from clubs of each division and, crucially, an independent Chairman. This element of independence is in contrast to the FA where the Chairman will be drawn from either the county FAs or the clubs.

### 1.15 Conclusion

The governance of football in England by the FA has been characterised by the growing confidence and dominance of the FAPL and its representatives. This has severely compromised the ability of the FA to govern independently on behalf of all interests under its jurisdiction. The organisation is characterised by competing interests and power bases. Members of the FA's decision-making structures increasingly behave in the fashion of delegates speaking and making decisions on behalf of their vested sectional interests, rather than as representatives with the responsibility of making decisions based on the achievement and the balancing of all the FA's constitutional and core objectives.

The changes that have taken place in English football since the formation of the Premier League in 1992, to both the structure of the governing institutions, and in the context of a fierce commercial agenda, have been largely driven by economic and market imperatives, through driving up broadcasting revenues and through increased competition for the available resources. In professional football this is nothing new, and any governing body would be unwise to attempt to block wider economic and commercial forces. Nevertheless, if the power of the market has the capacity to generate change in the way sporting stakeholders such as football clubs behave, then the FA has a responsibility to manage that change effectively, so that clubs have freedom and flexibility in the commercial sphere, but operate within a clear strategic framework that can deliver organisational success.

Unfortunately, the FA has been fundamentally weakened by the formation of an influential and economically powerful FAPL. The transformation of English football since 1992 has been led by the FAPL. The FA has largely failed to control the process of change, and has been engaged in a damage limitation exer-

cise, with sporadic but largely unsuccessful efforts to reign in the influence of the larger clubs. That the FAPL has secured its position constitutionally within the FA, to the point where it now commands influence commensurate with its economic weight, has disrupted the relative equilibrium that existed in the governance structures before its formation. The game's political structures have become increasingly fractious as individuals and organisations squabble over the game's spoils, sometimes to secure much needed funding, but often for no other reason than the simple desire for a bigger slice of the financial cake.

Despite the comprehensive nature of the *Blueprint*, and the progression of the FA as a commercial entity, it is clear that the game has yet to either strategically plan for or chance upon an effective structure of governance of the English game. The FAPL, rather than consolidating the authority of the FA, has intensified organisational tensions. Such tension is an inherent problem of any sporting organisation that acts as the representative body at all levels. Add to this the clash of strong personalities and survival instincts and good governance is difficult to achieve.

The volatility of sport in a commercial age requires organisational flexibility to adapt to changing environments and trends. The FA has adapted and responded to the requirements of football in the commercial age and is maximising the value of its assets in order to achieve some of its broader organisational objectives, such as regenerating grassroots football, and promoting sporting excellence. However, the FA has failed to effectively balance its responsibilities to each sector of the game, and the FAPL has secured a position within the organisation that looks largely unassailable. It is difficult to see how the FA can reassert its authority without external intervention and the injection of independence into the processes hijacked by the top of the professional game.

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## Football's Stakeholders

The previous chapter looked at the governance structure of the football authorities in England and highlighted some of the problems that have arisen. However, the governance map of English football stretches beyond the official institutions charged with the governing and regulatory responsibilities. The football industry in England is shaped not only by the official bodies, but also increasingly by the pluralistic pressures applied by a variety of stakeholders. These stakeholders include supporters, local communities, sponsors, broadcasters, local authorities, national and international political institutions, players and even now players' agents.

### 2.1 Broadcasters

New trends in broadcasting have impacted decisively on the governance of football in both the domestic and international spheres. Broadcasting has utilised live football as a 'battering ram' to drive sales of subscriptions and advertising. The resulting changes include the introduction of the Premier League, and in Europe the expanded Champions League. The massive sums generated have, in the FAPL in particular, made broadcasting a major source of revenue to clubs, with a number of significant consequences (Deloitte & Touche, 2003).

There is little doubt that the BSKyB cash injection brought tangible benefits to the game in England. This has been seen in terms of infrastructural renewal evidenced by new stadia – although it should be noted that this was also aided enormously by public money – and improved safety standards, if not quality design.

The restructuring of leagues, driven by the desire of the top division to control a greater proportion of the total revenue, and enabled by new competition in broadcasting, has had a negative impact on the lower leagues that has been well documented. Improved standards of club governance and management would go some way to stabilising the financial position of lower league clubs, but the growing gaps in income between divisions caused by restructuring has engendered inherent weaknesses that make on-field ambition and effective risk management almost irreconcilable.

A more recent phenomenon, evidenced by the recent deal struck between the FAPL and BSKyB, is the extent to which football has become vulnerable to the vagaries of the market value of football to broadcasters. This became brutally evident last year with the collapse of ITV Digital, identifying the reality of market values below the FAPL. Whilst the nature of the recent FAPL rights bidding process was considerably

affected by the intervention of the European Commission (see below), analysis of the deal struck with BSKyB illustrates the impact of the reliance on broadcasting revenue. Additionally, the broadcaster will have the right to televise at increasingly diverse times, including 'near live' matches scheduled at 1pm and 5pm on Saturday afternoon, either side of the 'blackout' time. With a reduction in competition following the collapse of ITV Digital, and the failure of other broadcasters such as NTL and Telewest, the FAPL has made considerable concessions to retain a consistent level of revenue.

BSkyB has had to bid a significant amount in order to retain exclusivity, but by paying a similar amount again, has been able to extend its reach over the number of games shown and the times of broadcast. Football's authorities will need to take particular care to protect themselves against the commercial instincts of broadcasters that have the potential to destabilise the traditional structures of football governance. Had the FAPL not been formed under the auspices of the FA, it is perfectly conceivable that broadcasters may have been able to effect a breakaway of the top division without the authorisation of the FA. The attempt by Media Partners to lure the top clubs in Europe outside of UEFA's structure is also a warning as to the influence of the broadcasters, particularly when in tandem with clubs. Such changes would have a fundamental impact on the nature and the structure of the game.

### 2.2 Supporters

Supporters are becoming an increasingly influential stakeholding group in football. They have always been key stakeholders in clubs in economic terms by providing crucial revenue streams through paying gate receipts and purchasing merchandise, but they also give the game its uniqueness and identity through their loyalty to one club. The 'irrational' loyalty supporters have to their football clubs is the basis of the concept of 'fan equity'. As the Salomon Brothers investment bank explains:

"...the relationship between a team and its supporters is exceptional in the sense that the customers do not need success... [it is] not a condition for their support in the short term... Fans can therefore constitute ... a real asset of truly intangible nature, as an essential part of the team's revenue is generated from the support it receives'. (Salomon Brothers, 1997, p.9)<sup>1</sup>

<sup>1</sup> Cited in Hamil et al., p. 29.





Collectively, supporters provide the atmosphere at games, which is key to making the product enjoyable and exciting, both for those attending the match and those watching on television. Without a crowd, the game becomes a barren, sterile affair, somehow reduced in meaning and value.

Despite the importance of supporters in terms of their collective contribution to the game, they are not admitted into the formal national governance structures of the game. They are not given representation within the national regulatory structures, such as the FA, the FAPL or the FL, and are effectively marginalised to pressure group status, albeit one growing in influence.

However, a number of developments in the supporters' movement, at both the national and club level, have in recent times shifted the power dynamics within the industry. The first significant development was the unification of the two national supporter organisations, the National Federation of Football Supporters' Clubs and the Football Supporters' Association, to create the Football Supporters' Federation (FSF) on 1<sup>st</sup> August 2002.

The newly formed FSF provides the supporters' movement with one united, independent, national body, representative of both fans and democratically constituted supporters' groups. The FSF is an energetic body aiming to support and protect the interests of supporters, gain representation on the executive bodies that control the game, be they clubs or national authorities, and initiate campaigns. The democratic and federal nature of the FSF provides a structure through which the views of supporters can be articulated (FSF Constitution, 2002, clause 2). As part of this process of articulation and campaigning, the FSF have organised a series of initiatives including: presenting evidence to the European Union on the collective bargaining issue for the Premier League; publishing a twenty-two point blueprint for football; lobbying Members of Parliament for more probity in football, which has led to the All Party Football Group enquiry into finance and governance of football; and lobbying for the FA to apply a 'fit and proper persons test' to the owners of clubs. The FSF receives little funding, despite the Government's Final Task Force Report recommendation that the football authorities should provide 'sufficient funding for the proper running and effective functioning of a national supporter representative body' (Football Task Force, Commercial Issues, p.10).

The second key development in the supporters' movement is the growth of supporters' trusts at football

clubs following the formation of Supporters Direct. Launched in 2000, Supporters Direct (SD) provides advice to supporters' groups who want to play a responsible role in the running of their clubs. In essence, SD provides backing to supporters who wish to acquire ownership, representation and influence within their clubs. SD has developed remarkably effective model constitutions based on democratic, not-for-personal-profit and community-based principles. The initiative empowers supporters at club level, providing them with proven and robust mechanisms so they can play an active role in the running of the club. Trusts aim not only to have influence within the club, but also to strengthen the bonds between the club and the local community that it serves.

The rate of growth of these new organisations has been spectacular – see chapter 4 for more details – and they have empowered supporters, especially in terms of acquiring collective shareholdings and board representation. The influence of supporters' trusts is growing at club level, but also in terms of regional activism across England, Scotland and Wales. Regional networks in the West Midlands, East Midlands, London and the South West provide trusts with support enabling joint action. At four clubs in the FL or Nationwide Conference the respective supporters' trust has gone on to acquire the majority shareholding in the club – Exeter City, Lincoln City, Chesterfield and York City.

Other supporters' groups have also been independently active in terms of influencing the authorities and adding pressure for improved corporate governance in the game. In particular, the complaint from Wimbledon Independent Supporters' Association (WISA) to the IFC, led to further pressure on the FA to reconsider their role in enforcing their own rules following the decision made by a Football Association appointed Panel on 28<sup>th</sup> May 2002 to allow Wimbledon Football Club's owners to move the club to Milton Keynes.

### 2.3 Communities

Until relatively recently local communities have been the least empowered of all the stakeholding groups in football. Traditionally, they have had little formal mechanisms for representation within clubs and none within national authorities that govern the game. This has been due partly to the diverse nature of communities, but also the lack of broadly representative vehicles to act as effective advocates.

The formation of the Federation of Stadium



Communities (FSC), which receives its funding from the Home Office's Active Community Unit, has sought to address these issues by empowering local community groups who live in the vicinity of stadiums. By offering support, advice and training programmes to groups that wish to have a say in how stadiums are run, the FSC provides invaluable support for clubs and the community groups who wish to work together for mutual benefit. The diversity of communities around football clubs and the divergence of needs (sometimes conflicting) often makes cohesive representation difficult. One particularly useful aspect of the FSC's work involves establishing forums for local multi-agency partnerships in order for various groups to have their voice heard and to allow for resolution of conflicting issues. This has worked particularly well at Charlton Athletic's Race Equality initiative (CARE), which aims to promote positive relations in the community and tackle racism and anti-social behaviour.

At club level the Football in the Community scheme (FitC) provides a number of activities to use the football club as a focus for community activities. The FitC is a registered charity, and has club based outlets established at all Football League and FA Premier League clubs. The scheme does have the support of the governing bodies in football in England with an independent Chairman and Chief Executive, five regional directors and two other specialist officers (in marketing and adult training) who support FitC projects. At club project level, the majority of activities fall into educational and social categories. In terms of education, every club project supports year-round programmes of activities with schoolchildren, including: coaching as part of the P.E. curriculum; curriculum support, tuition in literacy and numeracy to meet Key Stage 3 and 4 targets; after-school coaching at twilight hours; and delivering national competitions at 'small-sided' level such as five-a-side; and match day visits provided by clubs.

As community-based groups, supporters' trusts also provide a crucial link between the supporters, the club and the local community, and seek to ensure the community has representation in football. Trusts act as a catalyst in developing these links. The intrinsically democratic nature of trusts – and the co-options mechanism in their constitutions<sup>2</sup> – enables community groups beyond the supporter base, to get representation and influence. When coupled with the trust's focus on acquiring ownership and representation,

local community groups can benefit from ensuring that their voice is heard, and not simply side stepped, by clubs. Our survey of supporters' trusts found that although they have the co-options mechanism, it is not always used to its full effect and more work could be done. Only 6.5 per cent of trusts stated that they had links with community groups and 19.5 per cent stated they had links with either social or mutual groups. Similarly, only 10 per cent and 29 per cent of groups declared links with ethnic minority groups and disabled groups respectively.

#### 2.4 Local authorities

As a stakeholder, local authorities can have a powerful role in football. Their influence on matters concerning ground safety and particularly planning permission can be critical to a football club. As part of their ground safety remit, they issue and enforce safety certificates for grounds as designated under the Safety of Sports Grounds 1975 Act, overseen by the Football Licensing Authority. Local authorities have the power to impose conditions upon the club in respect of the facilities available to the public and also to calculate the number of people the club can safely admit to their ground; this is achieved through a process of certification. Local authorities can also impose other regulatory mechanisms, such as major event quota arrangements, that have an impact on football club grounds. However, perhaps the most powerful role local authorities have with respect to football is arbitrating over issues concerning planning permission and development of grounds and the use of the stadium.

The local authority's role and attitude towards football clubs depends on the history of relationships between them. Some local authorities view having football clubs within their borough as an asset. The London Borough of Islington stated in a submission to the London Assembly's Culture, Sport and Tourism Committee that 'no event in [our] history has generated crowds of the size, collective camaraderie and enthusiasm as those who gathered to celebrate Arsenal's winning 'the double' [in the 2001-02 season] (*Arsenal puts Islington on the map*, The Culture, Sport and Tourism Committee, 2003, p. 11). Similarly, Hounslow Council provided written evidence to the same London Assembly Committee that 'a football club can offer a common interest and focus for people whether they have lived in the area for many years or are new arrivals (The Culture, Sport and Tourism Committee, 2003, p. 11).

Other local authorities have either found the relation-

<sup>2</sup> Our survey of supporters' trusts indicates that 94% are established as Industrial and Provident Societies, with this co-option facility integrated into their constitutions.



ship more difficult or have been less positive in their attitude towards their local football clubs. Merton Borough Council has found it difficult to accommodate Wimbledon FC within the Borough following the sale of Plough Lane in 1996, and have been criticised for not being as proactive and helpful as they could be. Some club owners have been frustrated by the local authority's attitude in this respect and point to difficulties in working with them. In an evidentiary hearing to the London Assembly's Committee, Ron Noades, the former Chairman of Brentford, suggested that decisions regarding applications should be taken 'out of the local authority's hands because you start coming up against people with a vested interest... If we go to Feltham, three councillors are acting on behalf of the residents of Feltham and they don't want us' (The Culture, Sport and Tourism Committee, 2003, p.25).

Noades also criticised the London Borough of Hounslow's imposition of planning conditions (Section 106) which ensured that permission to allow Griffin Park to be used for residential housing would only be given if another site were found in the borough or adjoining borough. In the same evidentiary hearing, Noades stated: '[Hounslow Council's approach] meant, unless I could find a ground in the borough, we couldn't move, and as we had no resources to find one without selling our ground, it was impossible to do anything. The club was slowing losing £500,000 a year which was coming out of the resources we might have from the asset value of our ground' (The Culture, Sport and Tourism Committee, 2003, p. 27).

Football clubs can offer great benefits for local communities. The economic and regenerative impact of having a club in the area providing important employment opportunities and income streams, can bring money into the area. Local businesses, for instance benefit from the spin offs associated with an influx of visitors to the area. A caveat should be introduced, that the benefits local clubs can bring to local communities have to be planned for – they are not 'an inevitable outcome' (Southern and Cleland, 2001, p.14). However, it is clear clubs potentially have a great deal to offer communities in terms of economic spill over and investment.

A number of Councils have commented on the more intangible benefits associated with having football clubs in their area. The London Borough of Hammersmith and Fulham stated in their Unitary Development Plan that professional football in their Borough 'provides a major source of entertainment and contributes to the life of the community' (cited in The Culture, Sport and Tourism Committee, 2003, p. 11).

Or as John Dickie, former leader, Northampton Borough Council, puts it: 'There is a sense of ownership in a small town like ours. People who support Northampton Town do so because of a connection with the town, that local patriotism for their local team exists even from people who don't even go to the matches' (cited in Frampton *et al.*, 2001, p. 11).

Clubs can also act as centres for civic pride and community cohesion – benefits that are difficult to quantify and put an economic value on, but undoubtedly serve the interests of the community: 'the football club is part of the fabric of the town. In many ways a town's identity is tied to its football club' (Frampton *et al.*, 2001, p. 40). The views of these local authority representatives are backed up by the Government's Football Task Force which stated that: 'The club-community relationship has traditionally been based on mutual support. Clubs draw strength from the goodwill of the local people, who have nurtured and supported them over the generations. Clubs repay this by providing a community focus and source of civic pride' (Football Task Force, Investing in the Community, 1999, para 2.1). They can be, if used correctly, catalysts for social inclusion and community-based initiatives, such as the Football in the Community Scheme.

On the other hand football clubs can generate new problems and stresses for the community. Litter, vandalism, car parking, increased traffic, social unrest and noise are unwelcome side effects of living near a stadium. Sometimes these problems become so difficult that local community groups have mobilised to oppose the club and any development plans. The tensions these problems create among the local community present a real dilemma for local authorities. To address these issues, local authorities have often sought to accommodate the club (including its development plans) and the interests of the community. The most positive outcome of this process would be to see the club embedded into the fabric of the community with the stadium used as a resource for the community. In practice this is difficult to achieve. The Federation of Stadium Communities notes:

"The opportunities presented to the community via the planning process are ... rarely maximised... In very few examples studied has the local authority appeared to seek the views of the community in advance of opening up discussions on community use and benefit with the applicants. This approach increases the distrust of the community ... in as much as they see the council being prepared to bargain with the application that



they oppose. Any community benefits gained in this way are unlikely to be fully appreciated by a community.”  
(Federation of Stadium Communities, 1999, Chapter 4.7).

The local authority’s contradictory role is compounded by the fact that many clubs and stadiums are in the hands of private owners who are often driven by a profit motive. This means that the local authorities are less inclined to make decisions that directly benefit business, especially if it is at the expense of the community. The former leader of Northampton Borough Council, John Dickie, highlights the situation when the former Chair of Northampton Town FC met with the council regarding a funding bid:

“The previous chairman, Mr McRitchie, bought the club after seeing an advert in *Sporting Life*. On one occasion he made an application to the council for funding and after our meeting he asked — ‘have you got the money then?’ He clearly thought that we would just hand over the readies so that he could take the money away with him.”  
(Frampton *et al.*, 2001, p.7)

These conflicting pressures and complexities facing local authorities could perhaps be eased in light of the recent emergence of supporters’ trusts throughout the football industry. The emergence of supporters’ trusts as credible and powerful organisations who are increasingly acquiring bigger stakes in football clubs (and in some cases taking over the club) means that local authorities may be able to resolve some of the inherent contradictions they are currently faced with in dealing with private companies constituted as profit-making bodies. With a big enough say in the running of their clubs, supporters’ trusts, constituted as not-for-profit, community-based mutuals, could act as anchoring organisations, ensuring clubs are run as community benefit organisations. This development presents an ideal opportunity for local authorities to become more proactive in dealing with clubs.

Supporter’ trusts can also be a crucial player in rejuvenating the football club’s links to the wider community. With the number of partnerships and joint initiatives between supporters’ trusts and clubs are increasing – see chapter 4 for figures – local authorities should become more willing to actively engage in these partnerships. At present evidence from our survey shows councils could be more accommodating and proactive. Currently respondents to the supporters’ trust survey indicated that 39 per cent of trusts

have links with the local authority, but only 29 per cent received some form of support from the local council. This represents a drop of nearly 14 percentage points since last year’s report, when 42 per cent responded that they had received support from their local council.

If local authority engagement with trusts and clubs does take place, it should be done through Local Strategic Partnerships (LSPs) and community events for maximum long-term impact. In this scenario all the major stakeholders in football benefit. The club gets a better relationship with the local authority which could yield dividends in terms of successful planning applications and access to funding streams, which are currently not available to them. The trust fulfils their objectives in terms of developing the bonds between club and community and works towards a more sustainable football club. And the local authority is assured that the partnership is of benefit to the local community.

## 2.5 National and international institutions

The governance of domestic football is being increasingly subjected to wider political and legal frameworks. A number of domestic bodies have an interest in the governance of the game. The Department of Culture, Media and Sport (DCMS) impacts on the governance structure in a mainly indirect way. The DCMS part funds the Football Foundation, the organisation responsible for regenerating grassroots football. It also launched Supporters Direct, to extend the influence of supporters’ groups, and the Independent Football Commission. The DCMS is responsible for administering the government policy on stadium safety and this is done through the Football Licensing Authority, a statutory body formed in 1991 to oversee improved safety and public order. In this particular field, government has an influential role in the governance of football, legislating to ensure that football clubs and governing bodies fulfil legal requirements.

The London Assembly Culture Sport and Tourism Committee’s (2003) recent report *Away from Home* looks at issues of ground relocation in London and the case for Mayoral intervention, as well as broader themes of football for community benefit, and the role of supporters, communities and clubs. The report put forward a number of recommendations and best practice guidelines touching on transport and infrastructure, community benefit, and FA regulation. The report recommends that The FA, FL and FAPL should ‘clarify what sanctions will be imposed for clubs not complying with rules relating to club location’ (The Culture, Sport and Tourism Committee, 2003, p. 39).



The Parliamentary All Party Football Group (APFG) is also taking an increasing interest in governance and regulation. The group aims to raise parliamentary awareness and 'provide a forum for facilitating negotiations between key stakeholders in the football industry and parliamentarians and debate the key issues of the day'. Whilst the group has no statutory power, it is close to the government decision-making process, and lists as one objective, 'to assess how the country might respond to changes in the football climate and to press for action by Parliament and the Government.' The APFG has recently undertaken an inquiry into the financing of football. This was prompted by concerns over a number of issues including player costs, debt, and uncertainty over TV revenues. The inquiry is also concerned with economic disparity, commercialisation, and the tension between shareholder returns, team performance and supporter concerns.

The European Commission is playing an increasingly interventionist role in football, most recently in their challenge to the collective selling of broadcasting rights. The challenge was made on the basis that the joint selling arrangements closed the market to other broadcasters, limiting the media coverage of the FAPL to the detriment of consumers. The Commission argued that the selling of media rights by the FAPL as practiced was 'not indispensable for guaranteeing solidarity amongst clubs' and that it would be 'possible to achieve solidarity without incurring anti-competitive effects' (European Commission DG Competition, IP/02/1951). Although the FAPL signed another exclusive deal with BSkyB, the DG Competition remains unconvinced that the bidding process coincided with their requests.<sup>3</sup>

## 2.6 Investors

The structure of football clubs in England as companies means that the majority ownership of clubs lies predominantly in the hands of single or small groups of individuals, or institutional investors – see Chapter 4 for details. Investors in football clubs break down into a variety of different categories, with different motivations, backgrounds, and intentions. They include benefactors, asset strippers, PLC investors, businessmen seeking profile, and media companies, amongst others. A key factor in investing in football clubs is whether or not individuals or organisations are seeking to make a financial return on that investment.

In certain situations this is relatively easy to gauge.

<sup>3</sup> For an analysis of the case, see Michie & Oughton (2003).

High profile benefactors such as Jack Walker or Roman Abramovich may get an emotional return on investment through attachment to a particular club, but it seems clear in these cases that financial enrichment is not the primary motivation. Equally, supporters' trusts are investing in order to protect their emotional investment in the club. In contrast, media companies' investments in football clubs are presumably to protect their position in the decision-making processes with respect of football's developing commercial relationships with broadcasters (See Hamil S *et al.*, 2000, chapters 6 and 8). Similarly, despite the largely poor performance of PLC clubs on the stock market, such clubs are obliged to prioritise shareholder interests, and for institutional investors this will be their primary motivation.

However, in many circumstances, whether an investor is seeking a financial return is not so easy to gauge. Local businessmen investing in clubs are frequently referred to as 'sugar daddies' and they claim to subsidise clubs to one extent or another. This is sometimes the case. However, such individuals often extract reward in terms of high executive salaries or by selling on their ownership stake. Football clubs, as discussed in last year's *State of the Game* report, are vulnerable to asset stripping from such investors, enabling individuals to make a financial return despite claims to have bankrolled the club during their tenure.

If any illustration of the influence of investors is required, the relocation of Wimbledon FC to Milton Keynes is a stark demonstration of how self-interested objectives contrary to the spirit of the league and the wider game, can impact on regulatory issues. The relocation can clearly be seen in the context of investors looking to salvage a poor investment, and this was achieved despite widespread opposition to the move including from the governing bodies themselves. It cannot be seen in any terms other than a failure of governance and regulation.

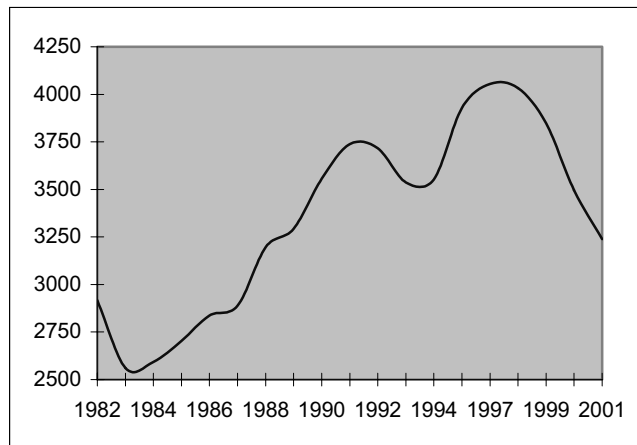
## 2.7 The role of players and the PFA

Since the collapse of ITV Digital, the financial pressure within the Football League has resulted in a cut back in playing staff and wage levels. Even before the collapse of ITV Digital, the Football League was unable to sustain the playing staff levels that it could at the end of the 1990s. Membership of the Professional Footballers Association (PFA) has thus fallen since 1998 (Figure 2.1).

Although a minority of players are still able to command high salaries, 75 per cent of PFA members play



**Figure 2.1: PFA Membership: 1982-2001**



Source: PFA Reports on the Annual General Meetings

in the FL where incomes have fallen and contracts have been shortened due to the financial pressures. This year, the number of players released at the end of their contracts increased by 5 per cent. Consequently, almost 20 per cent of professional footballers were released last season, with no guarantees of obtaining a new contract.<sup>5</sup>

Although the football industry has entered a financially challenging era, the PFA has emerged over the last 25 years as a major influence within the governance of the game. In contrast to the general decline of the trade union movement, the players union increased membership throughout the 1980s and 1990s, with 100 per cent union density and strong backing from its members – professional footballers in England. Indeed, it has been described as a ‘fourth force in the governance of the English game’ (Banks, 2002, p. 159). This degree of influence has been enhanced by the role of the Professional Football Negotiating and Consultative Committee, which was set up in 1992 and provides an official, formal link between the PFA and football’s governing bodies. In addition to four representatives from the PFA and the Chief Executive, Gordon Taylor, two representatives from the FL, two from the FAPL, one from the FA, and the Chief Executive from each of the three governing bodies make up the committee. The constitution clearly states that the aim of the committee is to discuss issues surrounding the employment terms of professional players. Therefore, no rule or regulation changes that affect the employment condition of PFA

members can be made without the involvement of the PFA. The committee also has a responsibility to support discussion between the governing bodies and the PFA on pressing issues within the industry. Through this mechanism, the PFA is able to play an instrumental role in the governance of the football industry.

Nevertheless, the PFA has at times had to threaten action, including in 2001. This was a landmark year for the PFA in terms of securing the finances for the operation of the union and its various activities. Previous agreements with the FA, the FL and the FA had entitled the PFA to 5 per cent of income generated from broadcasting rights. Up until 2001, this had entitled the PFA to £7.5 million per year from the previous Sky TV deal. However, with the deal set to expire, subsequent negotiations had seen BSkyB offer the FA £500 million per year for a further three seasons. Five per cent of this would have totalled £25 million per year. The FAPL offered the PFA £7.65 million. This represented an increase in absolute terms, but a reduction in percentage terms from 5 per cent to around 1.5 per cent.

The PFA balloted for strike action; 99 per cent of PFA members backed the union. Typical was the comment of Dean Smith, PFA representative at Leyton Orient in 2001, who argued that ‘all the players I spoke to at smaller clubs backed the union because they know that the PFA does so much for them’ (*When Saturday Comes*, 183, May 2002, p. 29). The threat of strike action had the effect of raising the initial offer to £17.5 million per year for a projected ten years with complete discretion over the use of the funds. This result

<sup>5</sup> See [www.givemefootball.com](http://www.givemefootball.com)



demonstrates the influence the PFA has in the modern game, guarantees their future until at least 2011, and underwrites the services that are available to PFA members.

## 2.8 The role of agents

Players' agents have been involved in the football industry for a number of decades. However, their presence increased during the 1990s. In England, they are an established part of the industry with over 220 FIFA licensed agents in operation – a high number in relation to other countries. Sport agencies and the agents they employ occupy a controversial position within the football industry. At the micro-level, criticism is directed towards certain individual agents with regard to the amount that they negotiate from brokering deals. This summer, the transfer of Harry Kewell from Leeds United to Liverpool for a sum of £5 million reportedly involved the agent Bernie Mandic receiving £2 million as the fee for his company Max Sport.

Some agencies are listed on the AIM and are therefore required to deliver returns to shareholders. If a football agent is looking to achieve maximum returns, they may encourage a player to look to move clubs. This will earn them more than if the player was to maintain a degree of continuity at a particular club. In addition to this, if the transfer market stagnates, agents will not be able to earn the same returns as when the market is strong. Therefore, whilst agents will argue they represent the interests of their clients, the reality may be more complex.

The 2000-2001 Singer and Friedlander Annual Football Review reported that the necessary degree of regulation was lacking. In 2001 FIFA adapted the regulatory controls that had been introduced in 1995, intent on bringing a stronger degree of influence to bear over the involvement of agents in the transfer market. However, the Mandic case highlights the fact that agents still have a high degree of influence; regulatory control is not currently proving as effective as required.

In September 2003 the FA developed proposals to increase agent transparency, reduce the activities of what they term 'rogue agents', and to increase financial integrity after high profile instances such as the Mandic case. A group made up of representatives from the PL, the FL, the PFA and the Football League Managers' Association has been brought together to assist. The FL has also introduced new requirements for member clubs to provide detailed accounts of all financial dealings with agents every six months.

These moves suggest that football's governing bodies may finally be serious about improving the financial probity of the industry.

## 2.9 Evaluation

So how do we fit these various stakeholders into the wider governance framework? The increasingly pluralistic nature of the English football industry has impacted at a number of levels. Firstly, the game is increasingly driven by organisations outside the formal framework of regulations. Whilst the governing authorities retain their place as the key decision makers, broadcasters and other stakeholders are playing a growing role in the decision-making process. What is also evident, however, is that the influence of each stakeholder varies greatly according to three main factors: access to decision makers in the game, economic value to the game, and political and legal authority.

The movement towards supporter mobilisation has grown inexorably since the formation of Supporters Direct in 2000 and the subsequent merger of the two existing supporter bodies to form the Football Supporters Federation. But tangible gains have been relatively small. Nevertheless, a number of league clubs are now controlled by supporters' trusts, and an increase in the number of supporter controlled clubs will help extend influence within the governing structures.

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## FA Premier League and Football League Clubs

This chapter analyses the state of corporate governance of professional football clubs operating in the Premier and Football Leagues. Good corporate governance is essential if clubs are to be managed effectively and to survive in the difficult economic circumstances surrounding the football industry. The past year has been especially testing as FL clubs have had to deal with the aftermath of the collapse of ITV digital. Our analysis reveals that while there are some noticeable improvements in governance standards, many clubs would benefit from following best practice guidelines on information disclosure, the appointment of directors, board composition, induction and training of directors, risk management and consultation with stakeholders. Despite improvement in some areas over the past three years, standards of corporate governance in football clubs are significantly below those of listed companies as a whole and there is considerable need for improvement.<sup>1</sup>

Corporate governance is regulated by Company Law and by codes of corporate governance such as *The Combined Code (CC)* and *The OECD Principles*. Whereas compliance with Company Law is obligatory, compliance with best practice codes of corporate governance, such as the CC, is voluntary in the sense that companies listed on the London Stock Exchange must either comply with the code or else explain any instance of non-compliance in a public statement normally published in their Annual Report. The rationale for this self-regulatory process is that good corporate governance brings benefits to companies in terms of engendering the trust of investors and improving corporate performance. Firms will therefore find it in their own best interests to comply with the code unless there is a good reason not to do so (FRC, 2003, p. 4), which can be explained to shareholders in the company's statement of compliance. Since the CC was first introduced, the degree of compliance, as measured by the proportion of companies adopting best practice, has increased considerably representing a welcome improvement in governance standards (PIRC, 2002).

In this chapter we present results from our survey of FAPL and FL clubs, and our analysis of corporate governance statements published by listed clubs, to provide an assessment of the state of corporate gov-

ernance of professional football clubs. On the basis of this analysis we make a number of recommendations for how the corporate governance of football might be improved in the future.

### 3.1 Compliance with company law and corporate governance

#### *Information disclosure*

Good corporate governance depends crucially on adequate provision of information from the board of directors to shareholders. Results from our survey of clubs shows that there has been an improvement over the past three years in clubs' recognition of their legal obligation to disclose information to shareholders. Information regarding the company falls into two broad categories:

- information on the ownership of the club, its constitution and objectives; and
- information on the running of the club, including, the board of directors, financial performance, assets, liabilities and strategy.

#### *Information on the ownership of the club, its constitution and objectives*

Under Company Law, clubs are required to comply with the demands of shareholders who request a copy of the company's Memorandum and Articles of Association – this document sets out the company's objectives and constitution – and the share register, which provides information on the ownership structure of the company. Table 3.1 reports results for 2001 to 2003. It can be seen that while there are still some clubs that would be violating company law, there has been a noticeable and welcome improvement in clubs' understanding of their obligations to shareholders. In 2003, 86 per cent of clubs stated that they would provide a copy of the share register to shareholders who requested it, compared with just 67 per cent in 2001. Similarly, results for 2003 show that 88 per cent of clubs stated that they would provide a copy of their Memorandum and Articles of Association to shareholders requesting it, compared with just 77 per cent in 2001.

Although there has been an increase in compliance with Company Law regarding the provision of the share register and the Memorandum and Articles of Association, there has also been an increase in the percentage of clubs stating that they would charge for a copy of the share register. Clubs are entitled to charge for providing a copy of the share register at

<sup>1</sup> Companies listed on the London Stock Exchange (LSE) are required under the listing rules of the LSE to follow the Combined Code (CC) and issue a public statement on compliance. Although this is not a requirement of the listing rules of AIM and OFEX, the CC is widely regarded as best practice and many companies listed on these markets also publish statements on corporate governance and compliance with the CC.



<b>Table 3.1 Disclosure of Information to Shareholders</b>			
	<b>Percentage of Respondents</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Clubs stating that they would provide a copy of the share register</b>	<b>67</b>	<b>79</b>	<b>86</b>
<b>Clubs stating that they would provide a copy of the Memorandum and Articles of Association</b>	<b>77</b>	<b>95</b>	<b>88</b>

<b>Table 3.2 Charging Shareholders for Information</b>			
	<b>Percentage of Respondents</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Clubs stating that they would charge to provide a copy of the share register</b>	<b>12</b>	<b>28</b>	<b>28</b>
<b>Clubs stating that they would charge to provide a copy of the Memorandum and Articles of Association</b>	<b>9</b>	<b>21</b>	<b>20</b>

the statutory rate (based on the number of entries on the register), but it is generally regarded as contrary to good governance practice to make such a charge to shareholders for this information.

In 2003, 28 per cent of clubs stated that they would charge to provide a copy of the share register compared with 12 per cent in 2001. On the Memorandum and Articles of Association (MAA), 20 per cent of clubs stated that they would charge to provide a copy to shareholders, up from 9 per cent in 2001. Since the maximum charge that clubs are allowed to make for the MAA under company law is 5 pence, it seems reasonable to conclude – given that the cost of collecting the charge is likely to be greater than the charge itself – that almost 1 in 5 clubs that responded to our survey are ignorant of company law in this regard.

The existence of a market in shares can bring improvements in corporate governance if owners or directors feel that they may lose control of the company or their position as a major shareholder or director, if the company performs badly. For this market mechanism to work there must be adequate disclosure of information to shareholders. Gaining access to

the share register is essential if shareholders wish to find out who owns the club in order to consider a takeover offer or just to increase their shareholding in a company that is unlisted.

Shareholders can also put pressure on the board of directors to bring about improvements in governance and performance by taking an active part in Annual General Meetings (AGMs) and putting resolutions to the AGM. A number of studies have shown that such shareholder activism can improve corporate governance and performance (see OECD, 2000, David *et al*, 2001 and Myners, 2001). To do this effectively, shareholders need access to the share register, ideally in electronic form so that it is relatively easy to circulate materials to other shareholders. As can be seen from Table 3.3, only 8 per cent of clubs responding to our survey would make the share register available in an electronic format. To encourage shareholder engagement, clubs can help by circulating shareholder resolutions and the accompanying statements free of charge. A number of clubs have assisted shareholders in this way, notably at Manchester United Plc in 2002 and Celtic Plc in 2003, and it was a recommendation of the Company Law



Review and the subsequent White Paper (2002) that companies should circulate shareholder resolutions and supporting statements free of charge.

*Information on the running of the club*

The main vehicle for most clubs to disclose information to all shareholders is the AGM and Annual Report. Clubs and companies should encourage participation at the AGM as this is the one meeting of the year where the board of directors and the company's performance come under scrutiny. In terms of providing adequate notice of the AGM, 87 per cent of clubs responding to our survey stated that they provided notice of the AGM at least 20 days in advance of the meeting. The vast majority of football clubs also circulated an Agenda (84 per cent) and an Annual Report (85 per cent). However, the provision of other information on the activities of the board is more mixed. Only 17 per cent of respondents disclosed information on Directors' histories and careers, only 8 per cent provided information on their attendance records and only 36 per

cent provided details of Directors' pay. These results are summarised in Table 3.3. Looking at the figures for 2003 it can be seen that a minority of clubs (around 15 per cent) fail to give adequate notice of their AGM, or to circulate an Agenda and Annual Report. Clubs are particularly bad at disclosing information to shareholders on Directors' résumés, meeting attendance and pay.

*Dialogue with stakeholders*

Dialogue and consultation between the board of directors and shareholders is an important element underpinning good corporate governance. The responses to our survey indicate that clubs state that they encounter little difficulty disclosing information to shareholders or consulting with shareholders – see Table 3.4

The picture regarding information disclosure to, and consultation with, shareholders is very different when looked at from the perspective of supporters. We

<b>Table 3.3 Board Use of the AGM to Disclose Information to Shareholders</b>			
	<b>Percentage of Respondents</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Board gave at least 20 days notice of the AGM</b>	<b>Not available</b>	<b>87</b>	<b>87</b>
<b>Board circulated Agenda for the AGM in advance</b>	<b>Not available</b>	<b>91</b>	<b>84</b>
<b>Board circulated Annual Report or Accounts before the AGM</b>	<b>70</b>	<b>95</b>	<b>85</b>
<b>Directors' histories/résumés disclosed and/or circulated before the AGM</b>	<b>Not available</b>	<b>Not available</b>	<b>17</b>
<b>Directors' attendance records disclosed and/or circulated before the AGM</b>	<b>12</b>	<b>7</b>	<b>8</b>
<b>Details of Directors' pay provided before or voted on at the AGM*</b>	<b>10</b>	<b>4</b>	<b>36*</b>

\* Note that in 2001 and 2002 we asked if Directors' pay was voted on at the AGM. In 2003 we asked if details of directors' pay was provided to shareholders before the AGM. Note also that the figure for 2003 has been affected by a change in the law that since 31<sup>st</sup> December 2002 requires listed companies to produce a remuneration report to be voted on at the AGM.



**Table 3.4 Information Disclosure and Consultation with Shareholders\***

	Percentage of Respondents		
	2001	2002	2003
<b>How difficult do you find disclosing information to shareholders?</b>			
Not at all difficult	44	46	40
Not very difficult	40	46	50
Quite difficult	7	4	10
Very difficult	0	2	0
N/A	9	2	0
<b>How difficult do you find consulting with shareholders</b>			
Not at all difficult	40	39	35
Not very difficult	40	50	53
Quite difficult	9	7	8
Very difficult	2	2	4
N/A	9	2	0

\* Figures may not sum to 100 per cent due to some respondents ticking 'not applicable' or 'don't know'.

**Table 3.5 Information Disclosure and Consultation with Shareholders: Supporter Survey Results\***

	Percentage of Respondents		
	2001	2002	2003
<b>How effective is your club at disclosing information to shareholders?</b>			
Not at all effective	23	19	28
Not very or moderately effective	28	29	27
Quite effective	17	24	18
Very effective	8	8	7
<b>How effective is your club at consulting with shareholders?</b>			
Not at all effective	30	34	34
Not very or moderately effective	22	22	28
Quite effective	17	17	12
Very effective	4	3	9

\* Figures may not sum to 100 per cent due to some respondents ticking 'not applicable' or 'don't know'.



asked supporters' trusts and groups how effective their club was at disclosing information to, and consulting with shareholders. The results are presented in Table 3.5. It can be seen that whereas 40 per cent of clubs state that they experience no difficulty disclosing information to shareholders, only 7 per cent of respondents from our supporters' survey state that the club is highly effective at disclosing information to its shareholders. The difference in opinion expressed by clubs and supporters may reflect the fact that clubs see the Annual Report as the main form of information disclosure. This is fairly easy to disseminate and almost 90 per cent of clubs distribute a report in advance of the AGM.

In contrast, supporters expect clubs to divulge more detailed information to shareholders on issues that affect the performance of the company such as Directors' activities and pay. The low level of disclosure of such information to shareholders (as reported by the clubs) would seem to suggest that clubs do encounter some difficulty or resistance, perhaps from the board or certain board members, to disclose this type of information and that as a result they choose not to disclose it, even though failure to do so goes against good corporate governance. So while the clubs report that they experience no difficulty in disclosing the information they *choose* to disclose, the supporters' trusts view the clubs as not very effective at disclosing the kind of information that they expect a club following good corporate governance to disclose. The contrasting perceptions of clubs and supporters suggests that there is a need to establish a clearer understanding of the type of information and dialogue it is reasonable for shareholders to expect and clubs to provide.

Good corporate governance requires companies to have a dialogue not just with shareholders but also with other stakeholders, such as customers, employees and representatives of the local community. This requirement is embedded in the OECD *Principles of Corporate Governance* that explicitly recognise the rights of stakeholders:

'The governance framework should recognise that the interests of the corporation are served by recognising the interests of stakeholders and their contribution to the long-term success of the corporation.' (OECD, *Principles of Corporate Governance*, Section III, OECD, Paris, p. 35)

As we have pointed out in previous reports, the rela-

tionship between football supporters and their club differs in a number of important respects from the standard business-customer relationship. First and foremost, football clubs enjoy a degree of 'customer' loyalty that is unprecedented in other lines of business. This makes the demand for tickets, and other club products insensitive to price changes: fans will not switch allegiances (brands) when the price of tickets or merchandise rises or when the services at the ground fall below standard. Supporter loyalty also manifests itself in supporter-shareholder behaviour. Shareholders in most companies will sell their shares if they expect the company to perform badly. This 'exit' mechanism acts as an important discipline on boards of directors to improve corporate performance. In contrast, supporter-shareholders are unlikely to sell shares in their football clubs.

Second, when clubs experience financial difficulty it is often the supporters who invest in the club to keep it viable. Our survey returns from supporters reveal that last year supporters' trusts had contributed over £2m to their clubs over the previous year, and around £4.5m over the previous two years. Similarly, local communities (often through the local authority) in many cases provide money and resources for the development of football stadia and facilities.

Thirdly, football fans contribute to the 'output' or 'value' generated by clubs over and above the money they spend on tickets. By supporting their club at the ground they increase the chances of their team winning, as reflected in the different win rates for home and away matches. This improves the league performance of the team which brings increased revenue in terms of 'merit' payments. Playing in front of a packed and atmospheric stadium also makes the matches more attractive to broadcasters and increases their value.

As a result of these three peculiarities in the business-customer relationship – brand loyalty or lock-in; 'customer' investment; and joint production – football supporters are more than just customers, they are stakeholders. Where 'customers' or shareholders are locked into a company – in the sense that they are unlikely to take their custom elsewhere or, in the case of shareholders, to sell their shares – it is important that they have a 'voice' to compensate for the lack of an 'exit' option.

For this reason, codes of corporate governance, such as the *OECD Principles*, which were adopted by 29 countries in 1999, including the UK, make special provision for stakeholders. In particular, the *OECD*



Principles state that:

“The corporate governance framework should recognise the rights of stakeholders as established by law and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

- A. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.
- B. Where stakeholders’ interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.
- C. The corporate governance framework should permit performance-enhancing mechanisms for stakeholder participation.
- D. Where stakeholders participate on the

corporate governance process they should have access to relevant information.” (OECD, 1999, p. 20).

Clubs have a number of mechanisms for engaging with stakeholders. These include dialogue with supporters’ groups, dialogue with supporters’ trusts (where often the trust represents shareholders’ interests), a supporter-elected director on the board, fans’ forums, and community liaison work.

Table 3.6 gives an analysis of the effectiveness of clubs’ dialogue with fans from the perspective of both clubs and supporters. It can be seen that 94 per cent of clubs state that they have little difficulty maintaining a dialogue with fans. However, results from our supporters’ survey indicate that only 40 per cent of respondents see such dialogue as ‘quite or very effective’.

A similar picture emerges in relation to customer charters: 83 per cent of clubs responding to our survey reported little or no difficulty in implementing their customer charter, but only 20 per cent of respondents to our supporter survey reported that the charter was

**Table 3.6 Dialogue/Consultation Between the Club and Fans\***

	Percentage of Respondents		
	2001	2002	2003
<b>Club Survey</b>			
<b>How difficult do you find consulting or maintaining a dialogue with fans?</b>			
Not at all difficult	35	46	50
Not very difficult	49	41	44
Quite difficult	14	14	6
Very difficult	0	0	0
<b>Supporter Survey</b>			
<b>How effective is your club at maintaining a dialogue with fans?</b>			
Not at all effective	26	17	26
Not very or moderately effective	19	25	34
Quite effective	34	33	26
Very or highly effective	17	22	14

\* Figures may not sum to 100 per cent due to some respondents ticking ‘not applicable’ or ‘don’t know’.



**Table 3.7 The Implementation and Effectiveness of Customer Charters\***

	Percentage of Respondents		
	2001	2002	2003
<b>Club Survey</b>			
<b>How difficult is it for you to implement the customer charter?</b>			
Not at all difficult	25	40	29
Not very difficult	52	54	54
Quite difficult	5	5	8
Very difficult	0	0	0
Not applicable	17	2	10
<b>Supporter Survey</b>			
<b>How effective is your club's customer charter at protecting and promoting the interests of fans?</b>			
Not at all effective	20	8	26
Not very or moderately effective	13	17	19
Quite effective	20	17	14
Very or highly effective	2	4	4
Not applicable/ Don't know	24	54	37

\* Figures may not sum to 100 per cent due to some respondents ticking 'not applicable' or 'don't know'.

effective at protecting and promoting the interests of fans (Table 3.7). There is also mixed evidence regarding the extent to which the customer charter mechanism has been effective at enforcing good practice. The vast majority of clubs responding to our survey (80 per cent) state that the customer charter has been used to enforce good practice. However, only 12 per cent of supporters' groups/trusts state that they have used the charters to enforce good practice.

Clubs also engage with their supporters via supporters' trusts. Supporters' trusts exist at 64 per cent of the clubs and 100 per cent of these clubs stated that they meet regularly with their supporters' trust – with 76 per cent meeting four times a year or more (Table 3.8).

### 3.2 Compliance with the Combined Code

The Combined Code (CC) sets out principles of good governance and a code of best practice for compa-

nies. Good governance is associated with good corporate performance and the aim of the code is to enhance business performance and protect the interests of shareholders and other stakeholders. The CC is part of the listing requirements of the London Stock Exchange (LSE). While it is only a requirement for companies listed on the LSE, it is widely regarded as best practice and many companies listed on AIM and OFEX have also adopted the code. The results presented in this report for listed companies therefore cover all Premier and Football League clubs listed on LSE, AIM or OFEX. The data presented in the tables below have been drawn from our analysis of companies' statements of corporate governance published in their Annual Reports and the returns from our survey. We also include data from PIRC's 2002 Review of Corporate Governance to serve as a benchmark against which to judge the performance of listed clubs.

Football Clubs listed on LSE, AIM or OFEX are shown in Table 3.9 below.



<b>Table 3.8 Clubs, Supporters' Trusts and Frequency of Dialogue</b>	
	<b>Percentage of Respondents 2003</b>
<b>Club Survey</b>	
<b>If there is a supporters' trust at your club, are you in regular contact with representatives from the trust?</b>	
Yes	<b>100</b>
No	<b>0</b>
<b>If yes, how often do you meet?</b>	
Infrequently	<b>7</b>
Weekly	<b>28</b>
Monthly	<b>28</b>
Quarterly	<b>14</b>
Other	<b>24</b>

*The board of Directors*

To avoid concentration of power in the hands of executive directors the CC requires that no less than one third of the board of Directors should be non-executive Directors and a majority of non-executive Directors should be independent. Table 3.10 compares data for football clubs in 2002-03 with data from PIRC's latest *Annual Review of Corporate Governance* (December 2002) for all companies listed

on the LSE. Of the listed clubs, only 56 per cent complied with this aspect of the code. The performance of listed clubs is significantly below that of all LSE listed companies where 95 per cent of companies complied with this requirement.

The vast majority of listed clubs – 81 per cent – do have at least one non-executive Director (though this is below the standard required by the code) but there is a clear need to increase the participation of non-executive Directors at listed clubs. The picture for all clubs (listed and non-listed) is quite different: only 55 per cent of clubs responding to our survey stated that they had one or more non-executive directors on the board.

*Separation of powers between chairman and Chief Executive Officer (CEO)*

The combined code also requires a separation of powers between the Chairman of the company who runs the board and the Chief Executive Officer (CEO) who runs the business. The majority of listed clubs (69 per cent) complied with this aspect of the code but this figure was below the percentages of both all clubs (82 per cent) and all listed companies (90 per cent).

*The appointment of new Directors*

To ensure that the board of Directors is strong and has the ability and range of skills necessary to run the club effectively it is important that appointments are made on a meritocratic basis. To this end the CC requires every board (with the exception of small

<b>Table 3.9 Listed Clubs: English Premier and Football League</b>		
<b>LSE</b>	<b>AIM</b>	<b>OFEX</b>
<b>Aston Villa</b>	<b>Birmingham City</b>	<b>Arsenal Holdings</b>
<b>Leeds United</b>	<b>Charlton Athletic</b>	<b>Manchester City</b>
<b>Manchester United</b>	<b>Chelsea Village<sup>2</sup></b>	
<b>Newcastle United</b>	<b>Millwall Holdings</b>	
<b>Sheffield United</b>	<b>Preston North End</b>	
<b>Southampton Leisure</b>	<b>Watford Leisure</b>	
<b>Sunderland</b>	<b>West Bromwich Albion</b>	
<b>Tottenham Hotspur</b>		

<sup>2</sup> Chelsea Village delisted after Mr Abramovich's company Chelsea Limited acquired a 93 per cent shareholding in July 2003.





**Table 3.10 Board Composition and Separation of Powers**

	Percentage of Clubs/Companies Complying		
	Listed Clubs	All Clubs	All-Share Companies on the LSE <sup>3</sup>
<b>Do non-executive directors comprise at least one-third of the board and is a majority of non-execs identified as independent?</b>	56*	Not available	95
<b>Has the company stated that there is at least one non-executive director?<sup>4</sup></b>	81	55	at least 95
<b>Are the roles of Chairman and CEO separated?</b>	69	82	90
<b>Is the division of responsibilities between the Chair and CEO set out in writing?</b>	43	38	Not available

\* This figure includes 2 clubs that did not identify directors as executive, non-executive and independent non-executive in their Annual Reports, but indicated in response to our survey that a majority of the Board are independent non-executive directors. If these two clubs are excluded the figure falls to 44 per cent.

boards)<sup>5</sup> to have a nominations committee that makes recommendations on the appointment of new directors. The nominations committee should have a majority of non-executive Directors and be chaired by the chairman or a non-executive Director. Companies are obliged to identify the members of the nominations committee and the chair of the committee. This is an area where the performance of listed football clubs is particularly weak. Our analysis of company statements on corporate governance showed that only 33 per cent of listed clubs with large boards stated that they had a nominations committee. At clubs with a nominations committee, all met the requirement that there should be a majority of non-executive Directors on this committee. As can be seen from Table 3.11, the extent of the breach of the CC on the existence of a nominations committee at listed football clubs (33 per cent) is considerably greater than for the listed (LSE) company sector as a whole where almost 80 per cent of companies have a nominations committee with a majority of non-executive Directors.

#### *Induction, appraisal and training of Directors*

Effective performance by the board of Directors requires an induction process explaining the statutory duties of Directors and how the board and its sub-committees function. There is also a need for a clear set of procedures for the appraisal and training of Directors. The Higgs report (2003) emphasised that this is essential if non-executive Directors are to effectively carry out their functions. Table 3.12 reveals that this is another area where football clubs are weak. None of the listed clubs that responded to our survey had an appraisal or training procedure for Directors. This is considerably worse than for the listed company sector as a whole and also worse than the unlisted football club sector where a small number of unlisted clubs did have such procedures.

The Higgs report also recommended that non-executive Directors should be drawn from a much wider constituency than at present, with less reliance on non-executives drawn from a narrow section of the company sector. The obvious way for football clubs to meet this requirement would be to have a supporter-elected Director on the board. Such a Director would be drawn from a wider pool and would, of course, have to comply with the statutory duties of a Director, including acting in the interests of the company as a

<sup>3</sup> These data are from PIRC (2002) Corporate Governance: Annual Review. PIRC, London.

<sup>4</sup> Two listed clubs did not disclose this in their Annual Reports.

<sup>5</sup> A small board is defined by PIRC (2002, p. 11) as 'six members or less'.



**Table 3.11 Nomination Committee and Appointments to the Board**

	Percentage of Clubs/Companies Complying		
	Listed Clubs	All Clubs	All-Share Companies on the LSE
Is there a nominations committee comprising a majority of non-executive directors?	33	Not available	77
Is there a transparent procedure for appointing new directors? <sup>6</sup>	29	31	87
Is there a senior independent non-executive director available for shareholders to consult? <sup>7</sup>	41	Not available	Not available

**Table 3.12 Induction, Training and Appraisal of Directors**

	Percentage of Clubs/Companies Complying		
	Listed Clubs	All Clubs	All-Share Companies on the LSE
Is there an induction procedure or training for new board members?	43	12	Not available
Is there an appraisal procedure for directors?	0	10	8
Is training provided and required for directors?	0	2	46
Is there a supporter elected director?	6	16	Not applicable

whole. Proper induction and training for supporter-elected Directors is therefore essential, as it would be for any new Director. Only 6 per cent of listed clubs and 15 per cent of all PL and FL clubs stated that they had a supporter-elected director on the board.

*The remuneration committee*

Executive pay has been a particular area of controversy in corporate governance. In companies where there is a separation of ownership from control (that is, where there are outside shareholders that are not executive Directors) it is important to ensure that there

are clear procedures for setting the level and increase in executive salaries and that any such increases are subject to the approval of shareholders. Without such procedures, executive Directors might award themselves pay increases unwarranted by performance. Unwarranted increases in executive pay reduce the profit available for investment in the club or for distribution to shareholders and may also result in higher prices for consumers.

The CC states that there should be a remuneration committee wholly comprising independent non-executive Directors to make recommendations to the board on directors' pay. The committee should provide a written report to shareholders every year and where appropriate the remuneration report should be subject

<sup>6</sup> Figures for listed clubs responding to our survey.

<sup>7</sup> Figures for listed clubs responding to our survey.



	Percentage of Clubs/Companies Complying		
	Listed Clubs	All Clubs	All-Share Companies on the LSE
Is the remuneration committee wholly comprised of independent non-executive directors?	44	Not available	84
Is a remuneration report put to the AGM for approval by shareholders? <sup>8</sup>	43	Not available	30

	Percentage of Responses				
	Disagree Strongly	Disagree Slightly	Neither agree or disagree	Agree slightly	Agree strongly
The board has a process to evaluate the effectiveness of individual board members? <sup>9</sup>	14	14	29	18	22
The compensations of board members are appropriate	0	0	38	25	38

\* Figures may not sum to 100 per cent due to some respondents ticking 'not applicable' or 'don't know'.

to approval by the Annual General Meeting. Table 3.13 presents our analysis of compliance with this aspect of the code. The performance of listed clubs is significantly worse than that of all listed companies; only 44 per cent of listed clubs met the code's requirements regarding the existence and composition of the remuneration committee. On the specific issue of putting a remuneration report to be voted on at the AGM it would appear that listed clubs perform significantly better than the All-Share Companies listed on the LSE. However, it is important to note that the figures for All-Share companies listed on the LSE are for 2002 and that a significant change in company law was introduced on 31<sup>st</sup> December 2002 requiring all

listed companies to produce a report on remuneration to be voted on at the AGM. Our analysis of listed and unlisted football clubs includes companies whose AGM took place in 2003 after the change in the law. Hence the figures for listed and unlisted clubs are not comparable with those for all-listed companies (2002). Moreover, it is apparent that less than half of listed clubs put a report from the remuneration committee to shareholders for approval at the AGM.

We asked clubs whether they had a process in place to evaluate the effectiveness of board members – such a process is necessary if individual remuneration is to be related to performance. Only 40 per cent of the clubs that responded to our survey agreed with this statement. Despite the lack of a process to evaluate the effectiveness of directors at the majority of clubs, 63 per cent of respondents felt that director

<sup>8</sup> Figures for listed clubs responding to our survey.

<sup>9</sup> These figures do not sum to 100 because 2 per cent of respondents stated that this question was not applicable, and because of rounding.



remuneration was appropriate (see Table 3.14).

*The Audit Committee*

In 2002, two crises – one in the corporate world at large and one in the football industry – highlighted the importance of effective, independent auditing and risk assessment. The first was the collapse of Enron and the subsequent fall of Andersens, the accountancy partnership, which signalled the need for more scrutiny of the auditing process and of the role of auditors. The second was the collapse of the ITV Digital broadcasting contract which drew attention to the need for effective risk assessment and management at football clubs.

The CC and the associated Turnbull Guidance set out standards for auditing, internal control and risk management. Under the CC every board should:

- have an audit committee with at least 3 non-executive Directors and an overall majority of independent non-executive Directors;
- review the effectiveness of the company's internal controls on an annual basis and report to shareholders; and
- have an internal audit system or regularly review the need for one.

Only 31 per cent of listed clubs met the CC requirement of the correct composition of non-executives and independent non-executives on the audit committee. This is significantly worse than for all LSE listed companies where levels of compliance are almost 90 per cent.

Only 56 per cent of listed clubs stated that they complied with the requirement of an annual review of the effectiveness of their internal control systems, significantly less than the 87 per cent compliance rate observed for all LSE listed companies. Table 3.15 also shows that only 38 per cent of listed clubs stated that they submitted a report to the board on their internal control system, which is significantly worse than the performance of the listed sector as a whole.

*Assessing and managing risk*

The Turnbull Guidance was introduced to provide assistance to companies on the types of internal controls they should have in place to comply with the Accountability and Audit Principles of the CC. The guidance requires the board of directors to consider:

**Table 3.15 The Audit Committee**

	Compliance Rate (%)	
	Listed Clubs	All-Share Companies on the LSE <sup>10</sup>
<b>Is there an audit committee with at least 3 non-execs and a majority of independent non-execs?</b>	<b>31</b>	<b>87</b>
<b>Did your club carry out an annual review of the effectiveness of its internal control systems?</b>	<b>56</b>	<b>87</b>
<b>Did the board receive a report on internal audit controls?</b>	<b>38</b>	<b>87</b>

'the nature and extent of the risks facing the company' (Turnbull Report, 1999, point 18), the chances of the risks actually occurring, the level of acceptable risk, measures to reduce risk, and the cost of implementing such measures relative to their benefit.

The collapse of the ITV Digital contract highlighted the changing nature of the risks facing football clubs as they have become more reliant on broadcasting income. Similarly, for PL clubs, increased revenue attached to European competitions has opened up new risks for PL clubs associated with the uncertainties surrounding qualification for European competitions. We asked clubs about different aspects of their risk assessment procedures (Table 3.16).

There are two striking features of the results. The first is that 29 per cent of listed companies that responded to our survey do not appear to have a process for evaluating the nature and extent of the risks facing their club. The second is that there is a significant difference in the performance of listed clubs compared to all clubs, with only 47 per cent of football clubs

<sup>10</sup> The figures for All-share LSE listed companies show the proportion of companies that met all three requirements. Performance may be better on any one requirement area indicated in this table.



**Table 3.16 Risk Assessment and Management: Club Survey Results**

	Percentage of respondents that indicated they had carried out the following risk evaluation processes	
	Listed Clubs	All Clubs
An evaluation of the nature and extent of the risks facing the club	71	47
The likelihood of the risks concerned, materialising	86	41
Specific risk studies and assessment of impact	86	26
Controls and procedures to limit exposure to loss of assets and fraud	100	45
Board approval of a 3-year business plan	86	48

reporting that they have a risk evaluation process that enables them to identify the nature and extent of the risks they face, only 41 per cent undertaking any assessment of the likelihood of identified risks occurring and 26 per cent carrying out specific risk studies.

The performance of listed clubs in regard of procedures to limit exposure to loss of assets and fraud is exemplary at 100 per cent but this drops to 45 per cent for all clubs. A similar picture emerges on the related question of business planning. We asked clubs whether a three-year business plan was put to the board for approval. Almost 15 per cent of listed clubs do not appear to carry out business planning on a three-year time horizon. This figure rises to 52 per cent for all clubs responding to our survey.

Overall, the results on risk management and business planning indicate that the majority of clubs that responded to our survey do not have the risk evaluation and business planning procedures in place to manage the risks facing their clubs, and to plan accordingly.

### 3.3 A 'fit and proper person' test for football?

Over the past year there has been much discussion about the need to introduce a 'fit and proper person' test for football.<sup>11</sup> Such a test might bar those with certain kinds of criminal records from owning, direct-

ing or shadow directing football clubs. It is difficult to estimate how many existing owners and Directors might fail to meet the requirements of such a test, but it is likely that the numbers would be small. While such a test would do much to protect the football industry, particularly from the risk of fraudulent or unscrupulous Directors, the results of our survey of clubs suggest that it would need to be introduced as part of a wider overall code of corporate governance for football.

One area of corporate governance where football clubs are particularly weak is on the need to have clear and transparent procedures for the appointment of Directors and non-executive Directors, including independent non-executive Directors. Clubs are especially weak on the provision of induction and training for new and existing Directors. Results from our survey also reveal that clubs need to improve their internal risk control and business planning systems. A set of guidelines – or code of corporate governance – for football that set out clear and manageable standards in these regards would do much to improve the state of the game. Such a code would complement and strengthen the work of the FA's Financial Advisory Unit. It would also provide a practical mechanism to help clubs stay solvent now that the FL has introduced penalty point deductions for clubs entering administration.

<sup>11</sup> See Holt (2003).



### 3.4 A code of corporate governance for professional football clubs

The establishment of a best practice code, tailored specifically to the football industry would help clubs improve their governance structures and procedures, which would in turn improve their corporate performance. Such a code would be fairly simple to design and the cost of implementing it is likely to be low. Moreover, unlike most other forms of regulation where predominately third parties benefit from the regulation, the primary beneficiaries of a code of corporate governance for professional football clubs would be the clubs themselves. Supporters and other stakeholders would also be likely to benefit.

There are examples of best practice governance structures and procedures that can be found both amongst listed and unlisted clubs, large and small. These examples could be used to design a code with separate provisions for listed companies, unlisted companies, large and small, as well as for clubs owned by supporters' trusts. The code of governance for professional football could also be developed to take account of the particular role of stakeholders in football.

Football is an especially challenging business because clubs have to balance the needs of the business with the desire to achieve success on the pitch. In order to meet this challenge clubs need to be equipped with best practice governance structures. Our analysis suggests that there is considerable scope for improving corporate governance in football that would place clubs in a better position and bring significant benefits to clubs and stakeholder groups alike. The development and adoption of a code of corporate governance in British football would also place British clubs at the forefront of good governance – setting the agenda for other countries to follow, in much the same way that the Combined Code led to most advanced economies following suit by implementing their own codes of corporate governance.

### 3.5 A new Combined Code from 1st November 2003

The Combined Code has recently been revised in the light of improvements in best practice and the findings of three reports: the Myners Report (2001) on the role of institutional investors; the Higgs Report (2003) on the role of non-executive Directors; and the Smith Report (2003) on the role of auditors and the audit process. The new regulations will apply to reporting years commencing on or after the 1<sup>st</sup> November 2003.

More emphasis will be placed on the role of independent non-executive Directors, shareholder activism and internal control and auditing. There is also greater allowance for differences in the requirements for large and small companies. The new code sets higher standards, illustrating that best practice corporate governance is very much a moving target. LSE listed clubs and other clubs seeking to follow best practice will have much to do if they are to comply with the new code in its first year of operation.

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## Supporters, Clubs and the Community

The ITV Digital crisis and the waning of the transfer market for FL clubs have underlined the need for clubs to explore new revenue streams in order to maintain and enhance long-term sustainability. As explained in Chapter 3 the football industry benefits from the fact that its customers – supporters – are also stakeholders with an interest in promoting the survival, growth and success of their club. The history of the football industry shows that there have been many occasions where supporters have invested in their club to ensure that it remains viable. In recent years supporter investment and commitment have been institutionalised via the formation of supporters' trusts. Most supporters' trusts are constituted as community benefit, Industrial and Provident Societies (IPS). IPSs are legal entities that are similar to companies in that they have a constitution and list of objectives that are agreed by members, but differ from companies in that they are not for (distributed) profit organizations. That is to say, while an IPS can generate revenue, all of its income must be spent on the objectives of the trust – no income or profit can be distributed to members/shareholders.

Most supporters' trusts include among their objectives strengthening links between the club, supporters and the community, fundraising for the club, attaining a shareholding and promoting youth involvement, equal opportunities and anti-racism initiatives. All of these activities can help widen the revenue base of clubs and/or increase clubs' share capital. There are also other positive outcomes. Once trusts acquire a share-

holding they become more actively involved in the running of the club, entitled to receive accounts and other information about the club. Recent research reveals that where shareholders do take an active interest in the companies they invest in, the performance of companies improves, especially over the long term (OECD, 2000, p.12).

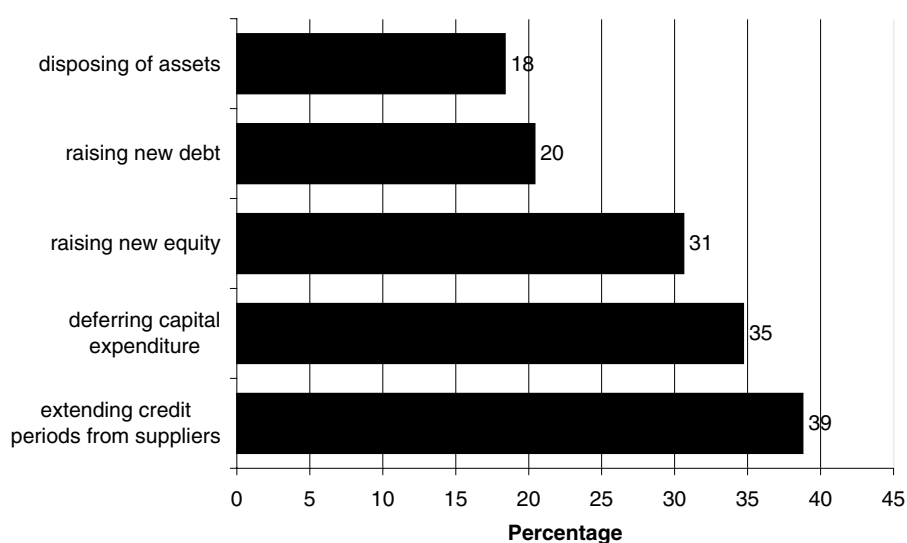
This chapter examines survey results from supporters' trusts and clubs to assess what supporters' trusts have so far achieved and what contribution they have made to the football industry.

### 4.1 Football clubs and finance

The latest Deloitte & Touche survey of the finances of the 92 clubs in the Premier and Football Leagues over the 2001/2 season, reports a 26 per cent increase in turnover. Yet only 28 per cent of Premier League clubs and 19 per cent of Football League clubs made any profits (Deloitte & Touche, 2003). Despite a full year of ITV Digital money, Football League clubs showed pre-tax losses amounting to £66 million and 27 (out of 69) clubs filed returns with net liabilities, little improvement on the 28 that filed similar returns the previous season (2000-01).

In our survey of football clubs in the Premier and Football Leagues, 65 per cent of clubs reported being 'quite' or 'very' concerned about the levels of debt in their club. A total of 71 per cent indicated that they found it 'quite' or 'very' difficult to maintain the sol-

**Figure 4.1 Which methods of active cash flow management have you used in the past 3 years?**







veny of the company. This difficulty is reflected in a number of other indicators. Asked what methods of active cash flow management they have used over the previous three months, 35 per cent and 39 per cent of club respondents respectively reported having deferred capital expenditure and extended credit periods from suppliers. A further 31 per cent of clubs had raised new equity and 20 per cent had raised new debt (Figure 4.1). It is worth emphasising that these figures relate only to the previous three months.

In addition, 18 per cent of clubs had disposed of assets during the previous three months, and 29 per cent reported having considered a sale and leaseback option on the ground.<sup>1</sup>

Similarly, a survey conducted in August 2002 found that 52 per cent of finance directors had increased their bank facility over the previous 12 months, with the percentage rising to 71 per cent for Premier League clubs. Of that 52 per cent figure, more than half stated that they would probably use more than 90 per cent of their available bank facility during the forthcoming year. Seventeen per cent of clubs had unsecured borrowing and 64 per cent of clubs (with annual turnovers between £10m and £100m) had variable rate bank/debt finance. For 22 per cent of clubs, funding was guaranteed by one director alone (PKF, August 2002, Executive Summary).

#### 4.2 Supporters and the financing of clubs

The majority of FL clubs have 50 per cent or more of their share capital concentrated in the hands of a single individual (Hope, 2003, Table 2). This concentration of ownership can lead to problems if the owner concerned runs out of money or interest. York City under Mr Douglas Craig and Lincoln City under Mr John Reames both experienced such problems. In many cases such clubs have accrued significant debts over previous years, often to the owners themselves. Contrary to the popular perception of owners donating money to their clubs, such funds often take the form of loans. Mr Jack Hayward at Wolverhampton Wanderers for instance, is owed £34.8 million by the football club limited company. Other clubs, such as Fulham, Portsmouth and Reading are in a similar position with what Deloitte & Touche call 'benefactor based loans' (Deloitte & Touche, 2003, p.62). When these benefactors withdraw from the club they become creditors and can call

in such debts.

A total of 34 Football League clubs have become insolvent over the past 11 years (Conn, 2003). Yet, despite the high number of clubs entering administration no football league club in recent times has folded and been expelled from the League (Hope, 2003). Unlike other lines of business, football clubs survive despite making losses, because supporters, investors and the wider community provide financial support to bail out the club and prevent it going under. Whereas in the past supporters have put money into clubs without receiving an ownership stake, and therefore without receiving any voice in the club, supporters' trusts provide an investment vehicle that enables smaller investors to band together and pool their resources in return for an ownership stake in the club. Where the ownership stake is also associated with an effective voice in the club, either because the club consults with the trust, or because the trust gains representation on the board, or because the trust becomes the owner of the club, there is the potential for the supporters' trust to improve the corporate governance of the club and open up new revenue streams.

In addition, the trusts can have the effect of widening the ownership base of clubs. The ability to create a widely dispersed ownership base depends upon individual clubs' Articles of Associations, the amount of authorised and issued share capital and the board's willingness to issue new shares. Results from our survey of clubs show that 74 per cent of clubs structured as private limited companies indicated that the football club board has the power to issue new shares. Of these, 72 per cent had received financial support from supporters' groups, and 68 per cent of these clubs had provided shares in return.

The number of clubs providing shares to supporters' groups in return for investment has increased markedly since last year. In our 2002 survey, 67 per cent of club boards indicated that they were authorised to issue shares. Of these clubs, 27 per cent of clubs stated that they received financial support from supporters' groups, but 83 per cent of respondents indicated that supporters' groups had not received shares in return.

Returns from our supporters' trusts survey confirm that trusts are investors in clubs, with 62 per cent of trusts having put money into the club.

The amount these trusts invested in the club varies considerably; however, 27 per cent had put in more

<sup>1</sup> An arrangement by which the club sells the freehold of the land to an external organisation for a capital sum, then leases it back from the new owner. See *State of the Game 2002*, p. 20, for more details.



**Table 4.1 Supporters' survey (supporters' trusts)**

Has your organisation provided money to the club?	
	Percentage of respondents
Yes	62
No	36
Not Applicable	2

than £20,000 over the previous year.

Asked if they received share capital for this money, 50 per cent of trusts reported they had not received shares for their investment, while 47 per cent stated that they had. Clearly, if trusts are to invest significant sums in their club, shares should be issued in return.

#### 4.3 Sustainable finances and stakeholder involvement

Mutual or co-operative status for football clubs could help overcome the current misalignment of interests between football's biggest stakeholders, the supporters, and the owners (Michie, 1999; Mills, 2003; Hope, 2003). A mutual vehicle could provide a wider and more effective framework for all stakeholders of football clubs – investors, community groups, supporters, local businesses and other parties interested in the health of the club.

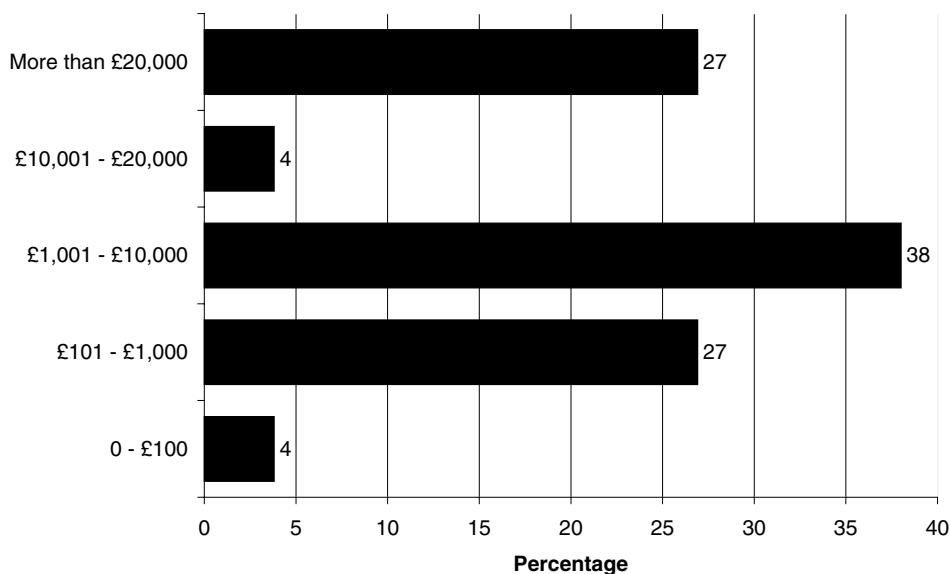
Furthermore, most football clubs as (technically) profit-making entities, are not eligible for many funding streams concerned with work in the community.<sup>2</sup>

These clubs are unable to access valuable revenue streams simply because of the way they have incorporated. Football clubs and the stadiums they occupy are natural focal points for many communities that provide local inhabitants with a sense of civic identity and pride. If they were non-profit-making entities, clubs could use the stadium as an asset to attract funding for community-based initiatives. Such work would have other positive outcomes, such as raising the profile of the club and nurturing new supporters, which in turn translates to bigger crowds and larger gate receipts. However, clubs may be able to access funding for community initiatives by working in partnership with their trust because most trusts are registered as community benefit, not for (distributed) profit organisations.

In addition there is a small number of clubs that are owned by trusts. These clubs are better placed to access funding streams that aim to deliver community objectives that can benefit the club and community, such as greater youth involvement in football, anti-racism work and so on. While there are some clubs that have effectively adopted mutual ownership status, it is important to recognise that there are obstacles. The difficulties in achieving mutual status for clubs are

<sup>2</sup> Including the Community Fund, Neighbourhood Renewal Fund, Community Chest, European Social Fund, and Regeneration Funding.

**Figure 4.2 Amount invested by Trust in the Club over previous year**





twofold. Firstly there is the task of raising sufficient funds to buy out the existing owners. Secondly, under current Football League rules football clubs can only be run as organisations incorporated under the Companies Acts, thus excluding mutuals, which are incorporated under the Industrial and Provident Societies Act 1965 (Football League, 2003, Clause 4.1). However, this regulatory obstacle could easily be removed by the Football League. Currently, it has effectively been by-passed by supporters' trusts who have taken over the running of their clubs. In these cases, the trust simply acts like a holding company – acquiring the majority shareholding in the football club limited company and maintaining its structure. However, if the Football League amended its rules to permit the registration of IPSs, the trust could run the club using the Executive powers that exist within its constitution.

#### 4.4 Supporters' trusts

Supporters' trusts can provide a vehicle for developing the club's links with the community and ensuring that clubs are run for the benefit of the supporters and the local community. The IPS supporters' trust structure<sup>3</sup> offers a solution to various challenges facing football clubs and the industry in general: providing a robust, democratic and representative vehicle for stakeholders – including supporters, the local community and investors in clubs – to play an active role in building bonds between the club and wider community; establishing an ongoing fundraising mechanism for the

club, for which shares are provided in return; offering an alternative form of collective ownership to the private model, which, in the case of trusts at Chesterfield, Exeter City, York City and Lincoln City, have become majority shareholders in the clubs they support.<sup>4</sup>

Our previous *State of the Game* reports have outlined the growth and development of supporters' trusts. The current chapter continues this analysis, tracking not only the growth and role of trusts, but also critically assessing the impact they have made in terms of improving the corporate governance of clubs.

#### 4.5 What supporters' trusts have contributed and what more can be done?

Since the establishment of Supporters Direct in September 2000, when only 6 supporters' trusts existed, 96 have since become established throughout the football pyramid, with the vast majority adopting Industrial and Provident Society constitutions. This represents an average growth rate of 22 new trusts per year. Our supporters' group survey received 50 returns from supporters' trusts at all levels of the football industry. A breakdown of the numbers of trust respondents by division is provided below in Figure 4.3.

<sup>3</sup> See Jaquiss, 2003, for the mechanics of the constitution.

<sup>4</sup> At these clubs there is still a private limited company registered with the football league, but the majority of the shares are owned by the supporters' trust.

**Figure 4.3 Supporters' trust respondents by League/Division**

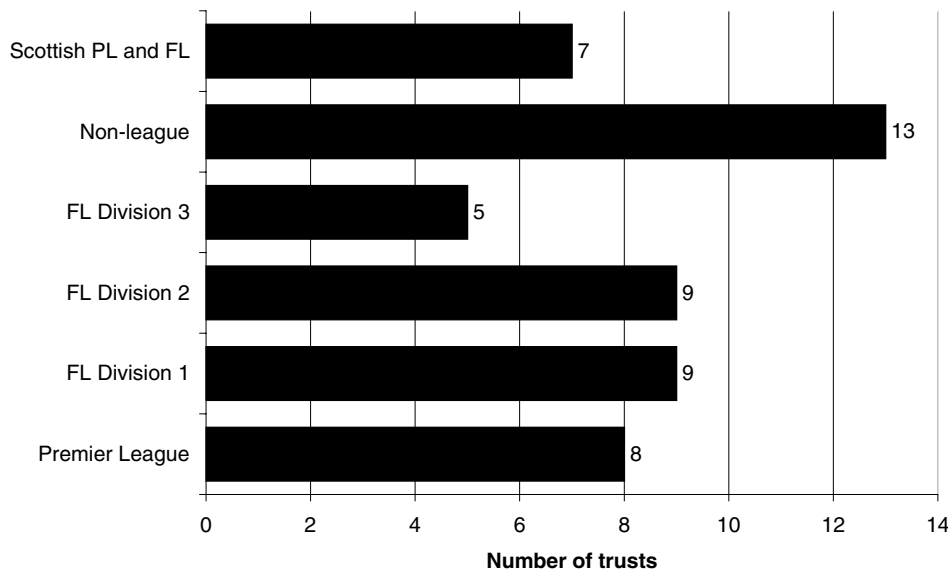




Figure 4.4 Supporters' trusts by League/Division

PREMIER LEAGUE				
	Trust Established (or agreed)	Shareholding	Supporter-elected director	Joint club/trust initiatives
Arsenal	✓	✓		
Manchester United	✓	✓		
Chelsea				
Fulham	✓			
Birmingham City				
Manchester City				
Southampton				
Liverpool				
Charlton Athletic			✓ <sup>5</sup>	
Portsmouth				
Blackburn Rovers				
Everton				
Aston Villa	✓	✓		
Tottenham Hotspur	✓	✓		
Bolton Wanderers				
Leeds United	✓	✓		
Middlesbrough	✓			
Newcastle United	✓			
Leicester City	✓	✓	✓ <sup>6</sup>	
Wolves	✓			
2001: number (%)	2 (10%)	1 (5%)	1 (5%)	-
2002: number (%)	4 (20%)	2 (10%)	1 (5%)	-
2003: number (%)	10 (50%)	6 (30%)	2 (10%)	-

<sup>5</sup> Although there is no trust at Charlton, the club does have a supporter-elected director.

<sup>6</sup> The Foxes Trust has an observer attending the board meetings of Leicester City Football Club.



FOOTBALL LEAGUE				
Division 1 clubs	Trust Established (or agreed)	Trust Shareholding	Supporter-elected director	Joint club/trust initiatives
West Bromwich Albion	✓ <sup>7</sup>	✓		
Sheffield United				
West Ham United	✓			
Sunderland				
Wigan Athletic				
Norwich City	✓	✓		
Millwall	✓	✓		
Burnley				
Nottingham Forest				
Preston North End				
Cardiff City				
Reading	✓	✓		
Stoke City				
Ipswich Town	✓			
Crystal Palace	✓			
Crewe Alexandra				
Gillingham	✓	✓		
Coventry City	(✓)			
Walsall	✓	✓		
Derby County	✓			
Bradford City	✓			
Rotherham United	✓		✓	✓
Watford	✓	✓		
Wimbledon				
2001: number (%)	3 (13%)	2 (8%)	0	
2002: number (%)	6 (25%)	3 (13%)	0	
2003: number (%)	14 (58%)	7 (29%)	1 (4%)	1 (4%)

<sup>7</sup> While Shareholders 4 Albion established themselves as a shareholders association, it bears the characteristics of a supporters' trust in that it is democratic, not-for-profit and broadly representative of supporters.



<b>FOOTBALL LEAGUE</b>				
<b>Division 2 clubs</b>	<b>Trust Established (or agreed)</b>	<b>Shareholding</b>	<b>Supporter-elected director</b>	<b>Joint club/trust initiatives</b>
<b>Brighton &amp; Hove Albion</b>				
Queens Park Rangers	✓	✓		
Port Vale	✓	✓	✓	✓
Sheffield Wednesday	✓	✓		✓
<b>Hartlepool United</b>				
<b>Bristol City</b>				
Swindon Town	✓	✓		✓
Oldham Athletic	✓			
Barnsley	✓			
Plymouth Argyle	✓	✓	✓	✓
Luton Town	✓	✓	✓ <sup>8</sup>	✓
<b>Colchester United</b>				
AFC Bournemouth	✓	✓	✓	✓
Wrexham	✓			
Grimsby Town	✓			
<b>Rushden &amp; Diamonds</b>				
<b>Blackpool</b>				
Brentford	✓	✓	✓	✓
Tranmere Rovers	✓			
Peterborough United	✓	✓		✓
Notts County	✓			
Stockport County	✓	✓		
<b>Wycombe Wanderers</b>				
Chesterfield	✓	✓	✓	✓
2001: number (%)	6 (25%)	4 (17%)	2 ( 8%)	
2002: number (%)	11 (46%)	5 (21%)	4 (17%)	
2003: number (%)	17 (71%)	11 (46%)	6 (25%)	9 (38%)

<sup>8</sup> The supporter-elected director at Luton Town Football Club, Yvonne Fletcher, resigned her position on the board in April 2003.



<b>FOOTBALL LEAGUE</b>				
	<b>Trust Established (or agreed)</b>	<b>Shareholding</b>	<b>Elected- director</b>	<b>Joint club initiatives</b>
Hull City	✓	✓		
Mansfield Town	✓	✓		✓
Swansea City	✓	✓	✓	✓
Oxford United	✓			
Doncaster Rovers	✓	✓	✓	✓
Torquay United				
Yeovil Town				
York City	✓	✓	✓	✓
Huddersfield Town	✓			
Scunthorpe United				
Bristol Rovers	✓			
Rochdale	✓			
Lincoln City	✓	✓	✓	✓
Cambridge United	✓	✓		✓
Darlington	✓			
Cheltenham Town				
Northampton Town	✓	✓	✓	✓
Bury	✓	✓		✓
Leyton Orient	✓	✓	✓	✓
Macclesfield Town				
Kidderminster Harriers	✓			
Boston United				
Southend United	✓	✓		
Carlisle United	✓	✓	✓	✓
<b>2001: number (%)</b>	<b>6 (25%)</b>	<b>2 ( 8%)</b>	<b>4 (17%)</b>	
<b>2002: number (%)</b>	<b>10 (42%)</b>	<b>4 (17%)</b>	<b>4 (17%)</b>	
<b>2003: number (%)</b>	<b>18 (75%)</b>	<b>12 (50%)</b>	<b>7 (29%)</b>	<b>10 (42%)</b>



CONFERENCE				
Clubs	Trust Established (or agreed)	Shareholding	Elected-director	Joint club/trust initiatives
Hereford United	(✓)	(✓)		
Chester City	✓	✓	✓	
Aldershot Town				
Barnet				
Exeter	✓	✓	✓	✓
Accrington Stanley				
Morecambe				
Shrewsbury Town				
Stevenage				
Woking				
Halifax Town	✓	✓	✓	✓
Telford United				
Scarborough				
Burton Albion				
Dagenham & Redbridge				
Margate				
Tamworth				
Forest Green				
Gravesend and Northfleet	✓			
Leigh RMI				
Northwich Victoria				
Farnborough Town	✓			
2001: number (%)	1 ( 5%)	2 ( 9%)	1 ( 5%)	
2002: number (%)	4 (18%)	2 ( 9%)	2 ( 9%)	
2003: number (%)	5 (23%)	4 (18%)	3 (14%)	2 (9%)

#### 4.6 Types of trusts

Of the trusts that responded to the questionnaire, 94 per cent are constituted as community-based Industrial and Provident Societies (Table 4.2).

#### 4.7 Trust growth

Supporters' trusts have grown both in terms of aggregate and average membership figures. Over the 2001 to 2003 period, the aggregate membership of supporters' trusts increased year by year from 6748 in 2001, to 17,749 in 2002, to 32,883 in 2003 (Figure 4.5).

**Table 4.2: Constitution of Trusts**

How supporters' trusts are constituted	
	Percentage of respondents
Unincorporated Trust	4%
Industrial and Provident Society	94%
Company Limited by Guarantee	2%





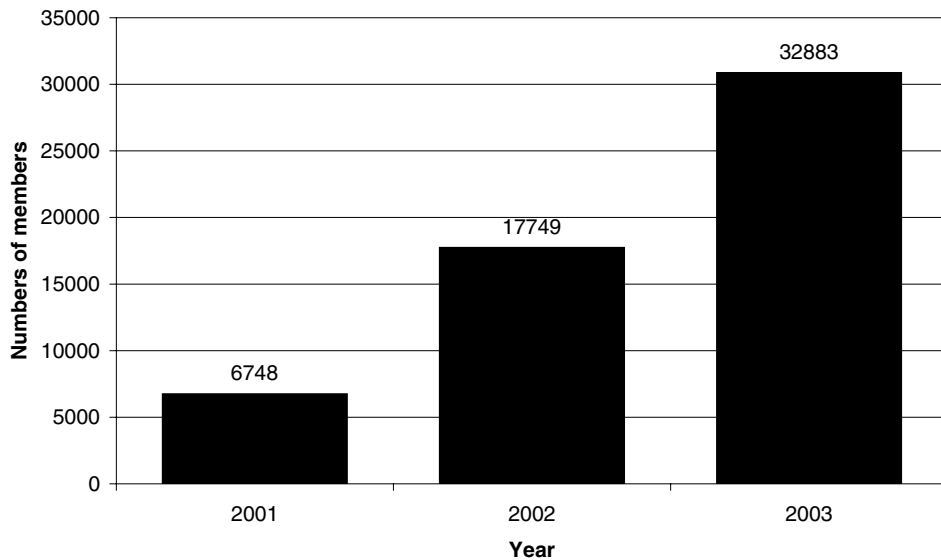
The range of trust membership varied from the smallest non-league trust containing 38 members to the Manchester United trust ('Shareholders United') with over 3,300 members. Trust membership figures are more meaningful if they are expressed as a percentage of the average home gate. If expressed in this way, the average trust membership as a percentage of the home gate has grown from 15 per cent in 2002 to 19 per cent in 2003.<sup>9</sup>

Our survey found that average membership figures for supporters' trusts across the football industry has also been increasing steadily from an average of 337 per organisation in 2001, to 467 in 2002, to 606 in 2003.

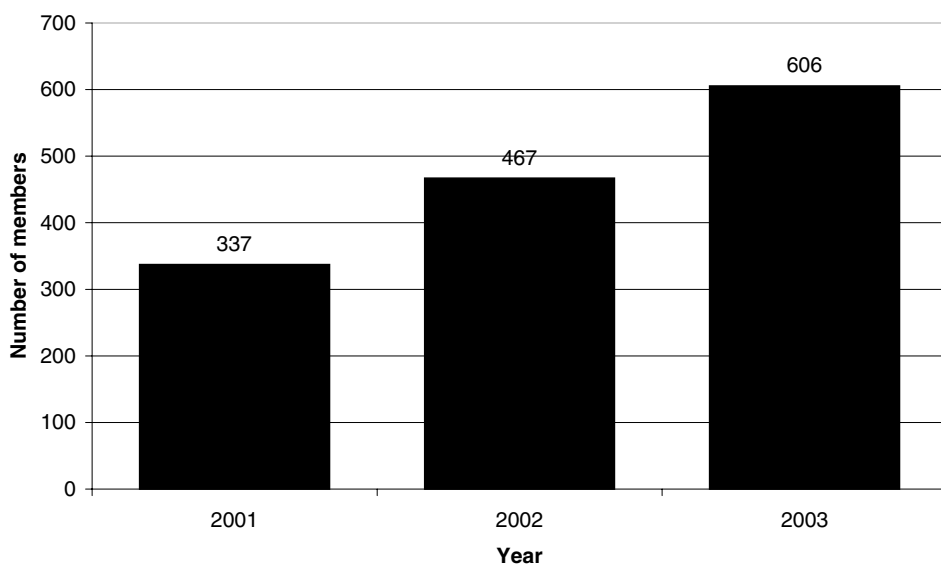
Note that these figures include the membership only

<sup>9</sup> With the membership of Shareholders United having grown from only around 2% of the home gate to just under 5% during this period.

**Figure 4.5 Aggregate memberships of trusts 2001-03**



**Figure 4.6 Average membership of trusts 2001-03**





for the 50 per cent of trusts that returned the questionnaire, so the total figures will be significantly higher. The overall rise in trust membership is clearly the result both of an increasing number of trusts, and a growing average membership per trust.

#### 4.8 Case study – Shareholders United’s membership drive

Figure 4.7 below tracks the growth in membership of Shareholders United<sup>10</sup>, the supporters’ trust at Manchester United, over the course of two years and eight months, from December 2000 to September 2003. At the time of writing membership has now jumped to over 3,300 due largely to supporters’ concerns that a take-over bid (and possibly delisting from the London Stock Exchange) is imminent.

The trust was born out of a campaign in 1998 to prevent BSKyB from taking over the club but has evolved into a broader based supporter-shareholder trust. In December 2000 the trust purchased its first batch of shares with the launch of its share scheme. At the time of writing, 226,236 shares have been purchased on behalf of its members at a cost of almost £400,000. This of course represents less than one per cent of the total PLC shareholding. Even including shares held outside this scheme, the Shareholders

United shareholding is still only now approaching the one per cent figure. However, this is larger than the average institutional shareholder, most of whom have around half a percent, or around £3 million worth of shares at the current share price.

There has been steady growth in overall trust membership since the trust launched its share scheme. However, the jumps in membership, particularly from April to June 2003 reveal the success of a large membership campaign by the trust. Adverts and membership forms were placed in the three main fanzines and official Manchester United magazine to raise the profile of the trust and recruit new members.

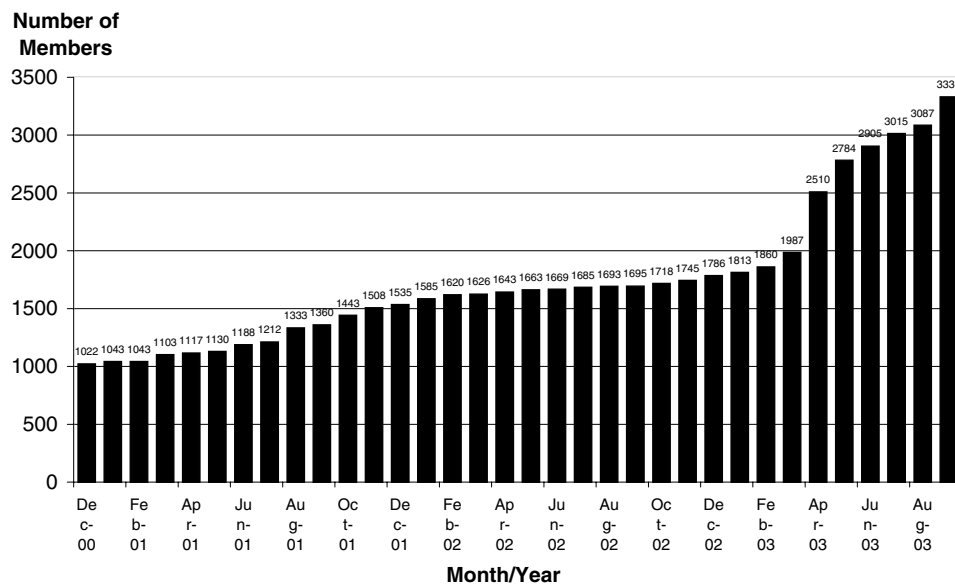
Backing this drive for new members was a newly revamped website with an effective online administration mechanism, including credit card processing, enabling the trust to reach supporters beyond the local vicinity. With the prospect of a take-over looming, the supporters have mobilised behind the trust and in just one day 99 supporters joined using the web facility.

#### 4.9 Trust fundraising, shareholdings and ownership

Our returns reveal that trusts have raised and continue to raise considerable sums of money. Analysis of the total sum of funds raised by trusts in 2002 reveals fundraising amounting to £2.4m (*State of the Game*,

<sup>10</sup> Shareholders United is a trust structured as a Company Limited by Guarantee.

Figure 4.7 SU membership growth





2003, p 32); the 2003 returns indicate this figure has grown to over £3,055,065. Broken down per year, trusts raised over £2,691,980 in from summer 2001 to summer 2002, and £2,039,788 for the period summer 2002 to 2003.

#### 4.10 Acquiring a shareholding in a private limited company – the Swans Trust

The Swansea City Supporters' Trust (the Swans Trust) runs a share scheme that has generated over £100,000 since being established in Autumn 2001. Contributors can donate one off sums or set up a standing order to invest in the scheme. Further contributions are made through various fundraising initiatives, including loan player schemes, collections and raffles. The trust paid £88,000 for 88,000 £1 shares in Swansea City 2002 limited, the holding company that wholly owns Swansea City football club, a stake of 20 per cent in the issued share capital; this was negotiated when a consortium took over the club in January 2002.

The shares are held and owned collectively by the trust. On the basis of its investment, the trust also has one supporter-Director elected to the club board. There is a shareholders agreement in force that applies equally to the trust and the other consortium shareholders and guarantees the shareholding through, for instance, pre-emption rights.

The shareholding and the trust's place on the board are linked: the trust has negotiated a second non-

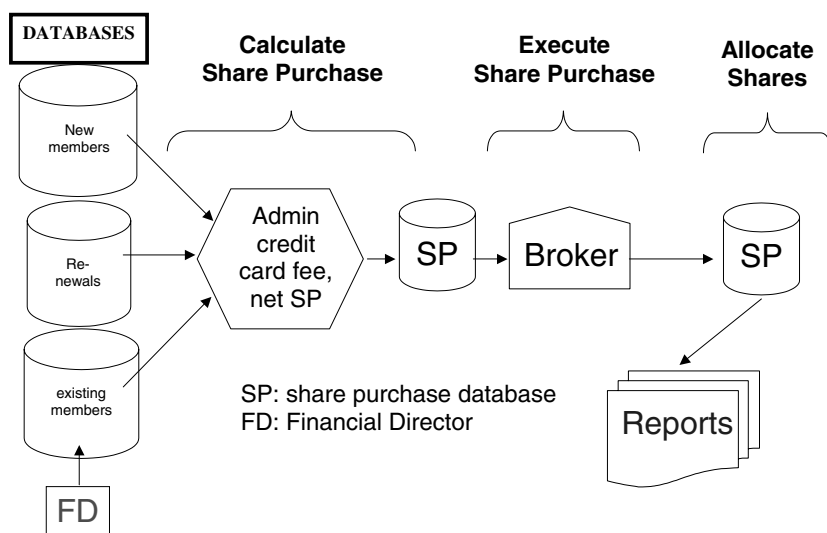
executive supporter director once the trust shareholding reaches 100,000. The impact of acquiring a shareholding and attaining representation on the board of the club has had a positive impact on membership growth. In particular the trust has been able to increase its membership this year by combining trust membership with the sale of season tickets. This was an initiative pursued by the supporter Director (who is also now the vice chair of the football club). Season ticket holders are presented with an option to opt out of trust membership, but by default, part of their season ticket fee will include membership of the trust. Figures are still being collated, but it appears membership has increased to over 2,500 as a result – an increase of some 1,500 or 150 per cent in the space of two years.

#### 4.11 Acquiring a shareholding at a listed plc – Shareholders United

Shareholders United operates a share scheme for its members to invest in Manchester United PLC shares by regular standing order or credit card payments. The minimum monthly standing order has been set at £10 a month, but a number of members have signed up to £100 a month, and to launch the scheme several members signed up for £500 or more a month (or £6,000 per year) in order to secure the necessary monthly sums to establish the scheme as a significant investment vehicle.

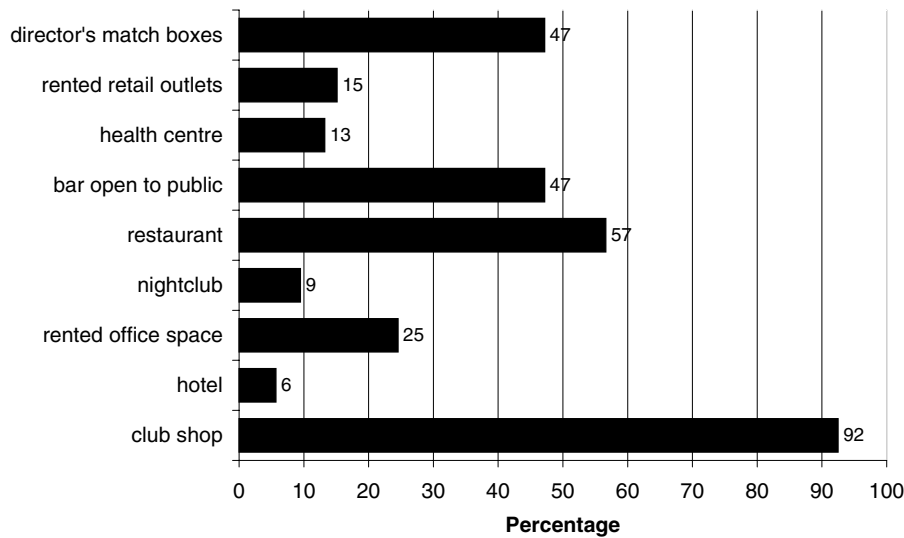
In addition to the one PLC share bought on behalf of the member when they pay the £10 trust membership

Figure 4.8 SU Share scheme – monthly processes





**Figure 4.9 Facilities available at club grounds**



fee, shares can also be bought in one off purchases, as gifts at Christmas for instance. The shares are pooled and voted collectively at the PLC's Annual General Meetings, but ownership still resides with the individual, who is free to leave the scheme at any time (although they thereby incur the resulting administrative costs). As an incorporated company limited by guarantee Shareholders United also owns MU PLC shares in its own right, but the shares under its control are mostly individually owned.

The mechanics of the monthly share scheme can be broken down into five administrative tasks: firstly, calculating the total share purchase, including exactly how many shares are to be bought; secondly, executing the share purchase through the club's Manchester-based stockbroker, Brewin Dolphin; thirdly, allocating the shares to individual members; fourthly, handling the disposals and transfers; and finally, reporting the procedures back to the trust board members, including the Financial Director. Every quarter members are provided with a statement of their current shareholding, including any tax liability. The monthly mechanics of the scheme are outlined in Figure 4.8.

The system provides a sustainable and incremental method for trusts wanting to acquire a shareholding in a large PLC club with a high value (Manchester United PLC is valued on the LSE at some £600 million).

#### **4.12 Trusts, clubs, communities and football stadiums**

Stadiums are by nature a key focus for the community, but in practice tend to be under-utilised, with owners unsure about how to improve usage (Mills, 2003; McClean, 2003). Our club survey returns supports this view – see Figure 4.9 – indicating that more community use could be made of grounds.

#### **4.13 Using the stadium for regenerating the local area — Port Vale**

At Port Vale, the Vale Supporters' Trust (VaST), has taken the lead in a scheme to maximise the community use of Vale Park football stadium. Working with Birkbeck's Football Governance Research Centre and the Co-operative College,<sup>11</sup> VaST has helped set up a working group designed to tap in to funding streams available to not-for-profit groups working in the community. By drawing together key organisations and individuals in the area – see list below – the working group have put together an application for around £100,000 to promote the use of a gym on the Vale Park site. The funding application will be made to the West Midlands Community Buildings Trial Programme, a funding stream for projects designed to

<sup>11</sup> On the 'Building Sustainable Supporters' Trusts in the West Midlands' project to develop training materials for supporters' trusts, see FGRC (2003) Research Paper 2003, No. 3.



enhance the use of community buildings for disadvantaged sections of the local community.<sup>12</sup>

Representatives on the working party include:

- Football in the Community Officer
- Supporters Direct
- Federation of Stadium Communities
- VaST (Port Vale Supporters' Trust)
- Cobridge Community Centre
- Local Councillor
- Burslem Community Development Trust
- Chair, Port Vale Football Club
- Building Sustainable Supporters' Trusts in the West Midlands project (Birkbeck & Co-op College)
- Burslem Park Partnership
- Community Facilitator, Directorate of Regeneration and Community, Stoke City Council
- Senior Regeneration Officer, Stoke on Trent City Council
- Fundraising and Grants Officer, Stoke City Council
- Vice-Chair, Port Vale Football Club
- Local Member of Parliament

Paradoxically, the football club is not eligible to apply for such funds, especially larger sources such as the Community Fund or Social Regeneration Budget funding, because it is, technically, a profit-making entity. To access this money they need to develop partnerships with community-based, not-for-profit organisations that are eligible, such as supporters' trusts.

As part of the process the working group sought to effectively undertake a mini-community audit to find

<sup>12</sup> West Midlands Community Buildings Trial Programme is a 2-year funding stream that provides up to £100,000 to initiatives that enhance the use of community buildings.

out exactly what resources the community possessed, assess the needs of local disadvantaged sections of the community and discover just how the stadium could be used as a focus point for initiatives. From the club's perspective this had considerable benefits, including enhancing the supporter base by reaching parts of the community not already involved with the club.

Working with the Community Facilitator at Stoke-on-Trent City Council, Voluntary Action Stoke-on-Trent, the Federation of Stadium Committees and the football club, the working group held a consultation evening, inviting representatives from community groups to identify what their needs were and how the club could use the stadium to address them. Three to four local community groups have now been identified as community bodies with specific needs that would benefit from using buildings on the Vale Park site. There are also other incidental financial benefits for the club, including substantially lower council tax rates on buildings that provide a service for community use.

The working group is now looking to establish itself as a consortia to not only run and manage the project, but also seek new funding sources; this structure will ensure effective representation from various community groups and an ongoing, positive working relationship for the trust and club.

The new owners of the football club are now looking at extending this community audit process and initiating a more comprehensive assessment of what contribution the community can make to the club in terms of providing sustainable resources, and what the club can provide the community.

Trusts are key players in such a process, with their constitutions dedicated to strengthening the bonds between the football club and the community. At Port Vale they have sought to maximise the utilisation of the football club and ground, and especially target 'hard to reach social groups' to tackle social exclusion, widen the utilisation of the club's resources to these disadvantaged groups, and also thereby nurture the local fan base.

#### 4.14 Regeneration

Using the contacts from the above working party the project helped initiate a drive for regeneration in the area of Burslem. Chaired by the local MP, a small working group has formed including the Vice Chair and Regeneration Officer from the football club, representatives from the City Council and members of the



Football Governance Research Centre, Birkbeck, to press for the football club to be a key element of Burslem's Regeneration Zone Implementation Plan (ZIP). If successful, this initiative will position the football club as a major player in the social economy of the area with access to large sums of regeneration funding and support.

The club is seen as a key community asset in the ongoing regeneration of Burslem and the surrounding area, providing the community with a much-needed sense of identity and cohesion. To make this happen, local authorities, local businesses, the football club and supporters groups, including the trust, need to pull together to translate this from an idea to reality.

A process of 'community and enterprise' auditing would be the starting point to achieve this. The audit would strengthen the bonds between the club and community and also provide the basis to lever in cash and grants from a variety of funding streams. The philosophy behind the 'community and enterprise audit' process was not how to directly help the club, but how to use the club to help regenerate the area.

The work undertaken to ensure Port Vale FC is at the heart of the social economy is directly transferable to other zones in the region. Nearly all the football clubs in the West Midlands are located in regeneration zones. The potential for football clubs and their stadia to become the hub of local community and enterprise activities needs to be recognised within their local

Regeneration Zone Implementation Plans, and this potential then needs to be realised through specific regeneration plans to be worked up jointly by the club and other economic and social actors in the region. Again, supporters' trusts are well placed to play a key role in such initiatives.

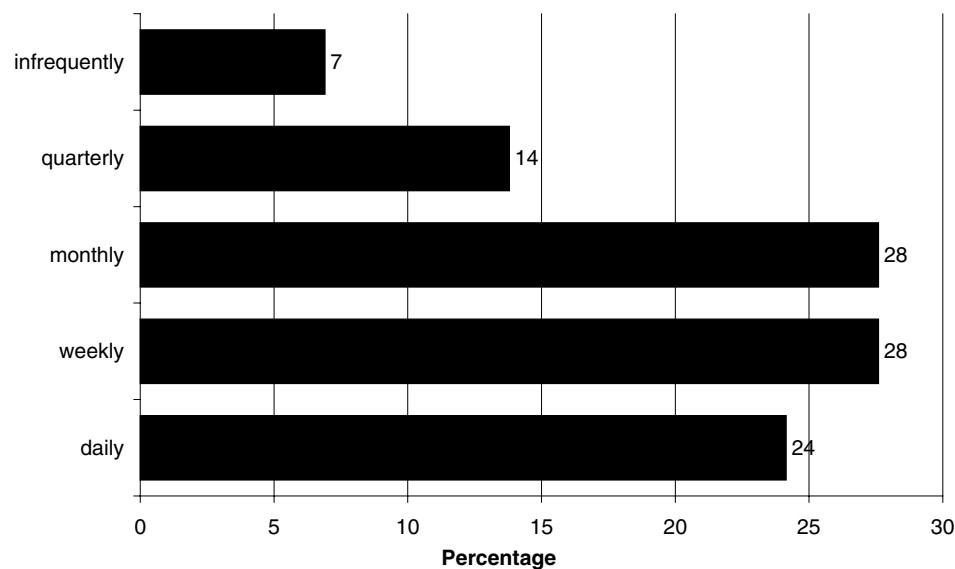
The preliminary findings of the 'Building Sustainable Supporters' Trusts in the West Midlands' project indicate that the process of applying for funds can act as a driver for trust sustainability. It allows trusts to tap into new funds; use their eligibility for funding as a lever on clubs to gain influence, representation and ownership within the club; and can be a catalyst in developing new relationships with other organisations in the community.

#### 4.15 Clubs, supporters' trusts and the community

Our survey sought to assess the relationship between football clubs and their respective trusts and potential areas for joint initiatives. The level of awareness about the work of trusts is very high with 98 per cent of clubs indicating that they had heard of supporters' trusts. Of the clubs with a local trust already established, all reported that they had some form of contact with representatives. The frequency of contact between clubs and trusts varied considerably from reports of 'daily' to 'infrequent' (Figure 4.10).

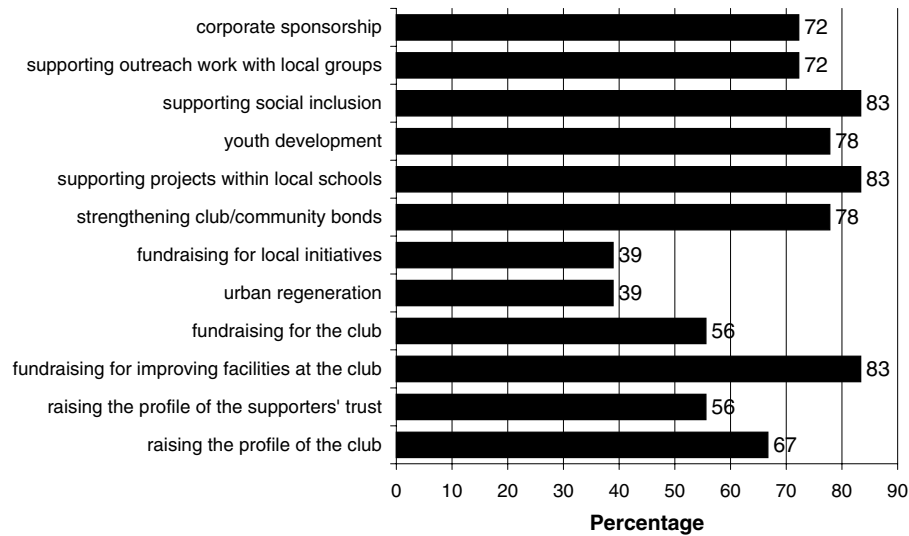
Responding to the question, 'In terms of developing

**Figure 4.10 Frequency of contact between clubs and trusts**

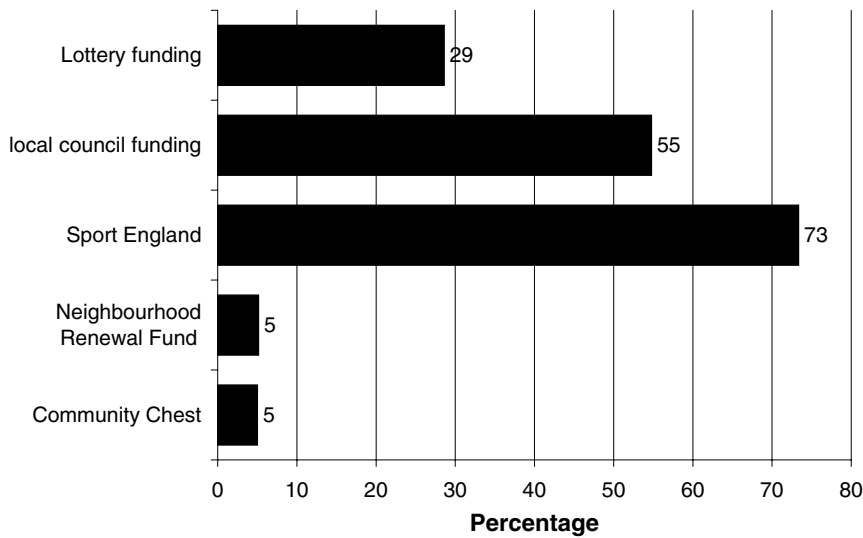




**Figure 4.11 Areas clubs would consider undertaking joint initiatives with the supporters' trust**



**Figure 4.12 Funding streams clubs have applied for**



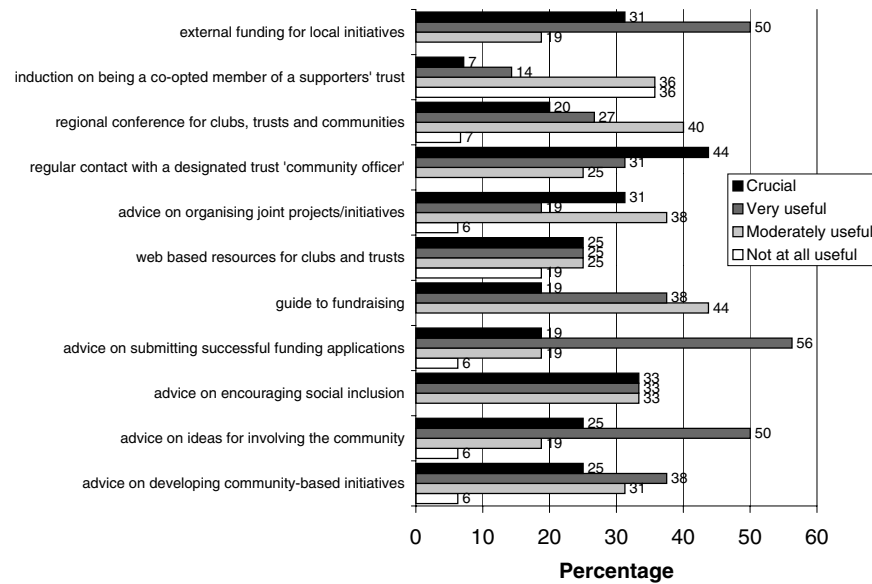
joint initiatives how useful would contact with the trust's designated community officer be?', 75 per cent indicated that this would be either 'crucial' or 'very useful'. Club survey returns indicate that many clubs would like to work jointly with trusts on a variety of different initiatives including: attracting corporate sponsorship (72 per cent); encouraging youth development (78 per cent); supporting social inclusion (83 per cent); supporting outreach work with local groups (72 per cent); working on projects with local schools (83 per cent); and generally, strengthening the bonds between the club and the community (78 per cent)

(Figure 4.11).

A high percentage of clubs (83 per cent) also indicated a willingness to fundraise with trusts for improving facilities at the club. Currently, clubs are not making full use of the funding streams available to them for this work. Our survey found that while a substantial percentage of clubs had applied for funding to Sport England (73 per cent) and the local council (55 per cent), very few had taken advantage of the Neighbourhood Renewal Fund, Lottery Funding or the Community Chest funding (Figure 4.12).



**Figure 4.13 In developing initiatives with supporters' trusts how useful would the following be?**



The club survey results reveal that clubs would like more advice on a range of issues regarding joint initiatives and fundraising in general. In particular, 67 and 75 per cent of clubs regarded advice on encouraging social inclusion and on involving the community respectively as being either 'very useful' or 'crucial' (Figure 4.13).

The supporters' survey indicates that trusts have established links and relationships with a wide range of community groups and stakeholders in their clubs – 55 per cent of trusts had links with local businesses, 77 per cent had links with other supporters' groups, and 47 per cent and 57 per cent had links with the local authority and the local MP respectively. A further 29 per cent and 26 per cent had links with local schools and disabled groups respectively. Clearly, the club/trust relationship needs developing. Trusts are a valuable, but under-utilised, resource for bridging the gap between the club and various groups and stakeholders in the local community. There is some evidence of joint club/trust partnerships: 40 per cent of trusts have some involvement in the Football in the Community Scheme, though the fact that this represents less than half of trusts indicates that more could be done.

Overall, results from our survey and case study evidence indicate that the supporters' trust movement has widened share ownership, increased investment in clubs, opened up new revenue streams and pro-

vided an effective voice for stakeholders. All of these factors help contribute to the improved governance and financial performance of clubs. Our analysis also indicates that the activities of trusts and their relationship with their clubs are quite variable. Both trusts and clubs have work to do to bring these up to best practice standard in order to realise the full potential of the supporters' trust movement.

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## Conclusion

The past year has proved that we live in interesting times, in both the worlds of professional football and corporate governance. The world of corporate governance has been reflecting on Enron, WorldCom, Tyco and other scandals, and has been considering proposals for reform including from the Higgs review<sup>1</sup> and the White Paper on company law reform.<sup>2</sup>

The world of football has been reflecting on the remnants of the ITV Digital contract, and has been considering proposals for reform including the European Commission's investigation of the collective selling arrangements for broadcasting rights.<sup>3</sup> In addition, the corporate governance reforms themselves are also impacting on football. The proposals on the role of Senior Independent Directors are a welcome opportunity for supporters' trusts to enter into a dialogue with their football club's Board in cases where this may have proved difficult previously. On the other hand, the Company Law reform proposals to make it easier for companies to avoid holding an AGM would represent a hugely damaging step backwards for the industry.

This last point was one that Birkbeck's Football Governance Research Centre made in our response to the Government's White Paper on modernising company law (FGRC, 2002). The importance of the AGM to the corporate governance of football clubs has been further underlined by the results of this year's survey. As reported in Chapter 3 above, most clubs report having little difficulty in providing information to shareholders. However, the situation appears less satisfactory when the responses from supporters' trusts are analysed regarding the same question. The reason for the divergence in views between trusts and clubs appears to lie in part at least in different perceptions of the degree of disclosure and dialogue that is appropriate and necessary. In the case of clubs, while most appear to believe that they are operating in a satisfactory manner in this regard, this refers largely to their activities around their Annual General Meeting – not just the meeting itself, but the provision and circulation of information to shareholders prior to and at the AGM.

It is therefore vital that at the very minimum, these current practices continue. This at least gives something positive upon which to build. We therefore trust that if there is to be a new Companies Act, then the proposal that would make it easier for companies not

to hold an AGM will be dropped. If a new Companies Act is introduced that does contain this proposal, then it is important that the football authorities lobby to get any such clause dropped. And if such a proposal actually becomes law, then it will be important for the football authorities to amend their own rules so that the holding of an AGM becomes then a requirement of league membership. Indeed, such a rule revision could prove to be an opportunity for making further progress on a range of disclosure and consultation arrangements.

In general the responses from clubs to the 2003 survey shows some improvement on previous years in terms both of being aware of what their duties and obligations are in terms of disclosure and other good practice, and also in their actual practice in these areas. However, as Chapter 3 in particular demonstrates, there is some way to go. If all clubs could match the existing best practice of those clubs that do operate good corporate governance practice, this in itself would be a major step forward. One way of achieving this would be to introduce a code of corporate governance for football clubs. Such a code would be relatively easy to design and the cost of implementing it would be low - it would however, be likely to bring significant benefits to clubs and stakeholders. Like the Combined Code, it would be voluntary, in the sense that clubs would either comply with it or explain their reasons for non-compliance.

This would allow clubs to enter into the *spirit* of what company law, codes of corporate governance and best practice are seeking to achieve. Thus, several clubs are properly disclosing to trusts the information that they are required to by law and are expected to by accepted standards of good practice. More important in some cases, though, is the active dialogue and co-operation that clubs have with their trusts, including working on joint initiatives for community benefit. In some cases the funding streams available for such work are being tapped into – but in many cases these opportunities are not yet being taken advantage of. This is an area in which supporters' trusts can take the lead. Indeed, in some cases it is only the trust and not the club that will be eligible for such funding streams, given the ineligibility of for-profit companies to apply.

This is of course a rather cruel irony, given that most clubs make no profits. Indeed, the whole incentive structure of a football club is always to invest whatever funds are available in improving the team in the pursuit of playing success. So most clubs never will be profitable. The recognition of this fact presents a

<sup>1</sup> See Higgs (2003).

<sup>2</sup> The White Paper is described and discussed in FGRC (2002).

<sup>3</sup> On which, see Michie & Oughton (2003).



tremendous opportunity, though, for the industry. If clubs were to formally recognise this reality by changing their legal structures to become Industrial & Provident Societies (IPSs) for the benefit of the community, they would thereby become eligible for such funding. More important, the whole structure of the clubs would be geared towards including and involving the key stakeholders, in particular the supporters, the local community, and local business. This would also make it easier for local authorities to fund activities through the club, and should make the club a more attractive brand for local businesses to want to be associated with.

For football clubs themselves to become IPSs – rather than being owned by an IPS – would require a league rule change. But this would be a simple matter that should hardly prove controversial given the widespread support across the industry for the drive towards greater community and supporter involvement. There is also a possible objection to adopting such a structure, which relates to the ability to accept investments from other businesses – which of course is important to football clubs. However, both the rule change and this question of handling investments are ones that Mutuo – the think tank for the co-operative and mutual sector – are currently working on, and they have developed clear solutions to both issues.

The supporters' trust movement has continued to grow. The survey results show that this growth in total membership is the result both of an increasing number of trusts being formed, and also an increase in the average size of existing trusts. Many trusts are also raising their sights in terms of their ambitions. The number and size of trust ownership stakes in clubs is growing, as is the number of clubs with supporters on the Board, and the number of clubs undertaking joint initiatives with their supporters' trusts.

However, these developments put a greater onus on the trusts to ensure that they themselves follow best practice in how they operate. This includes ensuring that all their board members are properly trained in the duties they need to carry out, and the tasks that they might want to undertake in order to achieve the trust's ambitions. In the case of getting members on the football club Board, it is important that any such Directors are then properly trained in these new duties.

There seems no lack of appetite from trust members to undergo such training. The need is for the required courses to be developed and offered, and for the necessary funding to be provided to make the courses

accessible to trust members. It is in the interests of the whole football industry that such training is undertaken. The necessary funding should therefore be made available.

A further finding from the questionnaire returns, though, is that it is not just supporters' trust members who need and desire more training. The degree of induction and training for all football club directors is currently at an unsatisfactory level. This gap needs to be filled.

An exciting opportunity could develop here, whereby the training for football club directors and secretaries, and supporters' trust directors and members could be integrated in a coherent programme so that all benefited from the experience that each group enjoys, and from reflecting upon the challenges that they all face together. This has begun in a small way with the collaboration between trusts and clubs in the West Midlands and the associated training on how to access funding streams for community activities.<sup>4</sup> But this needs to be supported by other regions, by Government, and by the football authorities if this is to be rolled out across England and Scotland.

Related work by PIRC has found that the corporate governance of companies is lacking in important areas, although at least is found to be improving over time (PIRC, 2002). These findings are entirely consistent with our survey data for the football sector going back three years. We have found weaknesses and gaps, but at least there has been some degree of progress. It may be that this annual process of surveying all clubs has itself assisted to some degree in making clubs aware of their duties and responsibilities.<sup>5</sup>

But it is important to remember that these formal requirements should represent just the tip of the iceberg in terms of good practice. Real and active engagement with stakeholders, and in particular with supporters and the local community, is what is needed. Good practice in terms of disclosure and consultation are necessary but not sufficient. But the one can lead on to the other, particularly where there is an active and well-run supporters' trust that clearly has the good of the club at heart and is prepared to initiate and pursue joint activities with the club. This is the best way of securing the long-term viability of clubs, building the supporter base and reaching new sec-

<sup>4</sup> On which, see FGRC & Co-operative College (2003).

<sup>5</sup> All clubs that complete our annual questionnaires – which is now a majority – receive a complimentary copy of that year's report.



tions of their local communities. For the clubs this can be seen as a market opportunity. For the communities such activities can play an important part in bringing people together, and in some cases even helping with economic regeneration, with the club becoming an active part of the social economy. For local authorities such joint initiatives between clubs and trusts can help in the delivery of policies to tackle racism, social exclusion and, again, possibly in economic regeneration. And for the supporters it can ensure that their football club is successful and sustainable – and above all, is seen to be neither a vehicle to boost an individual owner's ego nor to line anyone's pockets, but is instead a genuine community asset and football club.

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## Appendix: Survey of Clubs and Supporters' Trusts

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

1. The results from our questionnaire survey of all clubs in the English Premier and Football Leagues including those that had been relegated to the Conference League since 2002. The survey was conducted between May and September 2003. Of the 95 clubs surveyed 53 responded: a response rate of over 56 per cent, which is extremely high for an in-depth postal survey of this kind.
2. The results from our questionnaire survey of supporter groups, including all supporters' trusts at English Premier and Football League clubs. Of the 100 supporters' trusts surveyed 51 responded, giving a response rate of 51 per cent which is high for an in-depth postal survey of this kind.
3. Follow up interviews with selected clubs and supporters' trusts.
4. Analysis of the corporate governance statements and Annual Reports of clubs listed on the London Stock Exchange (LSE), AIM and OFEX.
5. The results from PIRC's analysis of the corporate governance statements of all LSE listed companies published in their December 2002 *Annual Review of Corporate Governance*.
6. The collation of financial accounts and performance contained in the latest Deloitte and Touche *Annual Review of Football Finance*, and PricewaterhouseCoopers *Financial Review of Scottish Football*.

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

This is our third annual review of the corporate governance of professional football clubs based on our dual survey methodology. We now have a longitudinal data set covering football clubs and supporters' trusts for the past three years. In this report we have provided where appropriate historical comparisons to identify trends in corporate governance in professional football.

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