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The Social Value of Football Research Project for Supporters Direct

Working Paper 2

Football, Ownership and Social Value

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Introduction

The codification of the rules of Association Football in 1863 was, in part, simply the standardisation of the rules of an already popular game. 'Football' in a variety of forms had been played since medieval times in England and the standardisation of rules was designed to create a common framework for teams from the public schools and from the universities.

The establishment of the Football Association (FA) in 1863 enabled the first international to be played between England and Scotland in the following year, the FA Cup to be staged in 1871 and the first professional league to be established in 1888 with twelve clubs as founding members. By the eve of the First World War in 1914, this had grown to forty clubs playing in two divisions, which was subsequently expanded to four divisions.

The explosion in popularity of football in the 20th Century created the need for large stadiums to be built and pressure on the FA from larger, mainly northern, clubs to make the sport professional. This, together with the need to insure the stadia, led to the formation of limited companies as the dominant form of club in English football.[1]

The FA, mainly made up in its early days of smaller southern amateur clubs, installed restrictions on clubs operating as Limited Companies, which meant that Directors could not receive income or dividends and the club's assets had to be passed on to community/sports organisations in the event of bankruptcy. This restricted the money-making potential of clubs and maintained links between the club and grassroots sports and the local community.

In the 1980s and 1990s, these restrictions were gradually eroded.[2] Payments were allowed to directors from 1983 onwards which bought in more professional businessmen to the game. Irving Scholar of Tottenham Hotspur formed a holding Public Limited Company in order to float the club without breaking Rule 34. The FA failed to block the move and other clubs soon followed suit in the 1990s, including Manchester United.

In 1992 the Premier League was formed with twenty members of the English First Division breaking away to form their own separate structure. The remaining 72 professional clubs are now organised into three divisions – the Championship, League One and League Two – below which is the (non-league) Conference Divisions.

[1] See Walvin, J. (1975) *The People's Game* (London: Allen Lane);
[2] See Conn, D., (1998) *The Football Business: Fair Game in the '90s?* (London: Mainstream Publishing)

By some measures football in this country has never been more successful. English clubs increasingly dominate the final stages of the European Champions' League, the Premier League is watched by more people globally than any other, and is increasingly able to attract the world's best players, not least because of the revenues it generates and so the wages it can pay.

In parallel with this, however, has been a growing sense that football has moved too far from its roots and risks alienating the very supporters upon which its success has been built. Rocketing ticket and kit prices – and a more general sense of being 'fleeced' at every opportunity – have priced many out of the 'people's game', while the steady transition to purpose-built out of town stadiums has taken many clubs out of the communities from which they came. The gap between the Premier League and the rest grows year-on-year, while that between the top four clubs and the rest of the Premier League looks increasingly like a chasm. The national team is seen to suffer as young English players are not given the opportunities to develop due to the influx of foreign talent….and so on…

Recent years have also seen a wave of foreign takeovers of English football's premier clubs, from Manchester United to Chelsea to Liverpool to Aston Villa to Manchester City (twice). Many other big clubs are effectively up for sale, with the consensus being that only a billionaire owner is capable of providing the funds needed to compete, both on and off the field.

Today, some clubs – such as Tottenham – are PLCs listed on the stock market. Others, such as Manchester United, Aston Villa and Liverpool are owned as investments by professional 'sports investors'. Others appear to be owned more for prestige reasons, with the Al Fayed buyout of Fulham an early example that has been eclipsed by Roman Abramovich's purchase of Chelsea and the dramatic acquisition of Manchester City by the sovereign wealth fund Abu Dhabi United Group.

These takeovers serve to reinforce the point that football club's are simply economic entities to be brought and sold like any other, which completely neglects the broader social impacts that clubs have in their local communities and beyond. That is, clubs may have 'value' that is distinct from what the market perceives it to be in purely financial terms and any particular point in time.

There are many other ownership models that have been used successfully on the European continent, including member mutual models such as that used by Barcelona FC. Many European countries have retained restrictions on the extent to which Football clubs can be commercialised, with Germany for example having a rule that a majority of shares must remain in the hands of the clubs members. The history and current practice of football club ownership in England is the anomaly in many ways and certainly not the norm.

The aim of this paper is to examine how existing and potential forms of club ownership relate to the creation (and destruction) of 'social value'. Section 1 will introduce the concept of social value and discuss the different ways in which this can be measured. Section 2 focuses on one particular form of measurement – social return on investment, or SROI – and examines how this approach can be used to assess social value creation. The third section introduces a variety of different ownership forms and section 4 concludes by assessing the ability of each to generate different forms of social value, using the SROI approach as a framework of analysis.

1. Different forms of measurement

'Social value' means different things to different people. For some, the social value created by an organisation is completely divorced from any reference to financial value. For others, it is virtually the same thing.

Social value, as defined here, is the value generated by an organisation to its material stakeholders over and above that value narrowly defined as financial, but including financial value. We have adopted here, a definition of social value closer to perhaps the term full economic value, where both financial and non-financial values are considered. Formally, we can define social value as:

'The total net value of financial and non-financial benefits that is created by an organisation to all the people it affects."

In the case of a football club, the social value is therefore the sum of all the benefits and costs it creates for fans, investors and its community.

The spectrum of views on the definition of social value means there is no agreed single methodology for measuring it: a number of approaches exist and these reflect the different views of what constitutes social value. The methodologies range from social accounting through to cost benefit analysis.

Social accounting attempts to measure the social impact (value) of an organisation's activities through the *self reported* changes stakeholders experience as a result of the activities of the organisation. That is, what do the stakeholders value and how does the organisation's activity contribute or detract from this – the key distinction is that value is that which stakeholders consider it to be, not what the organisation considers it to be. Traditional economic cost benefit analysis, in contrast, attempts to capture the social (in addition to the purely private) returns to stakeholders through the use of market, or proxy prices. The distinction between these two broad approaches is that, in the first, social value is determined by the subjective views of stakeholders, while, in the second, it is estimated by examining people's *behaviour* as captured in market prices, or proxies for these where there is no market price.

As a direct or indirect consequence of their activities, many organisations create (or destroy) that which is valuable to society. However, because this value is not always captured in conventional measurement techniques such as financial turnover, costs and profits, this creation (or destruction) often goes unreported – economists describe these factors as 'externalities'. We suggest that the best way to identify social value is to engage with the material stakeholders of an organisation. Like beauty, 'value' can be in the 'eye of the beholder': unless stakeholders are actively engaged in the measurement of social value, there is no effective way of capturing this.

One approach where stakeholder engagement is a critical component is Social return on investment (SROI), which is a measurement tool developed out of both social accounting and cost benefit analysis. SROI helps organisations to understand and manage the social, environmental and economic value that they are creating, by translating the outcomes of their activities into financial and non-financial measures.

Put most succinctly, SROI measures the *monetised* value of benefits relative to the costs of achieving those benefits. It is a ratio of the net present value of benefits to the net present value of the investment. Fore example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value.

$$\text{SROI} = \frac{\text{Net present value of benefits}}{\text{Net present value of investments}}$$

In the SROI approach stakeholders are fundamental to the identification of the value created by an organisation. Broadly defined, stakeholders are those persons, bodies and institutions that are materially affected by the actions of the organisation.

To put this in the context of a football club, the SROI methodology would measure more than simply the financial gain to the principle stakeholder – i.e. the owner(s) of the club – but would consider how the club creates social value for other stakeholders such as employees, supporters and local communities and then monetise these through the use of financial proxies.[3] These measures of value are then combined to give one total figure for the net benefits resulting from a club's activities, which can be contrasted with the investment needed to achieve this to give a robust estimate of the social return produced by this investment.

2. SROI and the measurement of social value

As we have seen, stakeholder engagement is central to the SROI approach. The key output of this engagement is the development of an 'impact map', which is an account of how an organisation makes a difference in the world from the perspective of its stakeholders. The map describes how an organisation takes in resources (inputs) to do its work (activities) and how this leads to direct results (outputs) and, ultimately, to longer-term or more significant results (outcomes). It also considers what part of those outcomes the organisation can take credit for (impact).

To put this in a football club context, table 1 presents an example of what an impact map might look like for a selection of the likely (material) stakeholders and examines the logical flow of how the club's inputs, activities, outputs, outcomes and impacts are connected.

Table 1: Impact Map

Stakeholders	Inputs	Activities	Output	Outcome
Owner/Club	Finance from owner	Decision making	Winning trophies	Status
			Financial Remuneration	Increased disposable income
Supporters	Supporter purchases	Watching football	Positive/ negative feelings from results	Improved self confidence
Local Community	Time	Community activities	Qualifications from community activities	Higher education performance
				Community cohesion

[3] For more information on the SROI methodology, particularly the process of assigning financial proxies to qualitative material, see *Social Return on Investment: Valuing what matters.* http://www.neweconomics.org/gen/newways_socialreturn.aspx

The table demonstrates (in very simple terms) the types of elements that could make up the impact map for a football club. The shaded areas represent how different ownership models are likely to have an effect on the logical flow of the impact map; how material stakeholders are connected to outcomes and the subsequent level of social return on investment.

If a club has a single owner, decision making would rest with them. The financial benefits of success, unless recycled into lower ticket prices or greater funding for community projects, for example, would also be retained by that individual.

On the other hand, if a club is owned by its local supporters they would control the decision making process, leading to greater feelings of empowerment - a significant contributor to human well-being. Financial returns would be spread around a greater number of individuals and would therefore be more likely to remain in the local community, creating positive local multiplier effects[4]. Not-for-profit forms of ownership that do not pay dividends (see below) are also likely to have beneficial economic impacts. One would assume, for example, that a not-for-profit ownership model would help to keep down ticket prices which would mean effectively mean more money retained in the local community by supporters. Overall, that there is a greater probability that more funding would be geared towards the outcomes that affect members/supporters in the local community.

In practical terms, if a club were to complete an SROI of its activities, it would need to complete the following steps:

- In conjunction with the board of a football club, those conducting the SROI analysis would decide on the boundaries of the analysis, both the club activities to be reviewed as well as the timeframe over which the SROI is assessed. Material stakeholders (those that are impacted by the activities of the club) would be identified.
- Stakeholder engagement (using a variety of techniques) would help create an impact map for the club tying together outcomes (identified by stakeholders as important to them) with the activities and investment of the club.
- It is likely that most football clubs do not measure the outcomes (such as those identified in table 1) beyond the purely financial. Estimates and assumptions would need to be made that the outcomes had been achieved over the period under review. An alternative approach would be to establish outcomes data collection over an agreed period of time. It would be made explicit at this stage which outcomes would be monetized (and included in the calculation) and every attempt would be made to find suitable proxies for *all* important sources of social value.
- For those outcomes without a market value, financial proxies appropriate to the stakeholders would be used.
- Costs and benefits would be benchmarked to account for attribution and deadweight (i.e. would the outcomes have occurred in the absence of the club) and a ratio produced.

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[4] In economic terms, the 'multiplier' refers to the long-term, ripple effects from an initial investment or expenditure. The multiplier refers to the extent that this initial capital inflow is recycled in the local community (e.g. I spend my wages at a local shop, which then buys local supplies, which enables the creation of local jobs, etc). **nef** has created a tool called the Local Multiplier 3 which measures the local economic impact of a given spend within a defined area over three rounds of spending. In the case of a community owned football club, dividends paid to local fans will be more likely to be respent within the local area rather than 'leaking out' if paid to institutional investors. See, Sachs, J. (2002) *The Money Trail*, (**nef**: London)

In short, the SROI methodology would be able to measure the total level of social value created – including subjective attachments which are not generally monetised – and to capture the way that this is distributed amongst stakeholders. By undertaking this process with clubs using different ownership models, we could then relate these outcomes to the impact of ownership forms.

The cost of undertaking an SROI for a football club would vary depending on the size of its operations and the number of its material stakeholders. Based on a range of turnovers between approximately £0.75m - £75m[5], the cost would likely range from £35,000 to £65,000. This cost is based on the employment of an external consultancy to undertake the SROI analysis. Built into this model of analysis is the assumption that the club would put at the disposal of the consultancy, club employees to assist in the organisation of the stakeholder engagement and data collection parts of the methodology.

3. Forms of ownership

Ownership strongly influences what a company or organisation seeks to do and how it accounts for that activity. Therefore the model of ownership, whether a PLC traded on the stock market or a company held privately or in trust, in large part determines the answer to the question: 'what is this organisation for?'

When we think about football, rooted as it is in community and collective traditions but now part of a globalised sporting and financial marketplace, the answer to this question is not obvious. The divide between making a profit and dedicating a football club to winning trophies and its fan-base and community is not clear cut. Many recent high-profile failures of football clubs were not driven by greed but by recklessness. Faced with relentless competition many clubs gambled on huge debts in the hope that future revenues from success bought with borrowing would pay the bills.

The chasm between the top clubs and the rest mentioned above is important here. A Champion's League spot brings vast revenues and so the likelihood of more success and more revenues, it is thus easy to understand the lure of gambling hugely in an attempt to reach this level. But by definition, most that try will fail.

The overwhelming majority of major football clubs are privately owned. The two most prominent forms are the traditional model of a majority-owner, which means the company is *privately-held*, and the *publicly-held* company with shares available on a registered stock exchange. For straight commercial corporations rather than football clubs, private ownership is associated with profit maximisation – or at least the generation of a satisfactory level of profit relative to other investment opportunities. Football clubs can be rather different, however, particularly where they are privately-held.

The extent of this difference turns on the motivation of the owner. For example, Philip Green did not take British Home Stores off the public markets to be privately held for any other reason than that he saw this as a means of increasing both profits and his share of these. The Glazer family's similar move with Manchester United was, arguably, for essentially the same reasons. In contrast, it is difficult to argue that Roman Abramovich took complete control over Chelsea – rather than seeking a large

[5] Information provided by Supporters Direct suggesting the likely range of turnovers from a large non-league club to a Premier league club.

minority shareholding in a publicly listed club, for example – in order to maximise his financial returns.

As well as these standard forms, there are other ownership models that combine the need to generate income with the production of broader social benefits. Such forms have long existed: many were invented in the UK and were contemporary to football's origins. These include mutual organisations and cooperatives from an era of community involvement and collective activity that can seem as distant and out-of-date as footballers walking amongst fans to the game. Yet many forms of mutual and cooperative organisations still prosper. Building societies are just one type which have shown longevity and in the current financial climate are enjoying renewed popularity.

A related example in the world of football is the importance of supporters' trusts, which are a significant part of the landscape. Well over 100 clubs have supporters' trusts and these trusts represent in excess of 120,000 members. Over 100 trusts hold stakes in their clubs, and 14 clubs are owned outright or controlled by trusts in the UK. 45 of these have directors on the board of the club, and almost half of these directors are elected by the trust membership.

In recent years innovative approaches seeking to combine social and/or charitable aims with profitability have grown in number and ambition. While these are often lumped together as 'social enterprises' there are a number of different legal forms that allow the ownership structure of an organisation to align itself with the organisation's goals, even when they go beyond making a financial return.

These can be broken down into three basic forms: charities, companies or Industrial and Provident Societies (IPS). Charitable status does have its benefits, including tax advantages, but this comes with a considerable number of constraints. Any social enterprise taking charitable status would have to ensure that all its activities are fully in line with its charitable purpose. A professional football club striving for trophies would struggle to meet charitable status, though many of the foundations that modern clubs operate to benefit their communities, so-called Community Departments, often are registered as charities.

We will focus here on the two main types of non-charitable enterprise. The two models need to be assessed on whether they are they likely to encourage the creation (or destruction) of social value? Alternatively, the question is to what extent would these ownership forms enable a club to perform the three key functions of a football club:

- Generate revenue to invest for the team and the club
- Operate as a social and community institution
- Prudently protect the future of the club

<u>CIC – Community Interest Company</u>

CICs are company structures which explicitly commit to provide benefits to a community – rather than simply to shareholders, for example. Being a company means it is owned by shareholders or is limited by guarantee.

CICs owned by shareholders are allowed to generate a profit and can act like private companies by raising investment or taking on debt from commercial sources. There is no limit to the level of profit a CIC is allowed to make, but beyond a maximum threshold, this can only be reinvested or used for the 'community benefit' for which the CIC was established rather than distributed to shareholders. CICs are therefore structures which recognise that some companies, like football clubs, may not benefit from too much control by one person or organisation.

An additional control that seeks to prevent any CIC from being stripped of its assets, which in football terms could mean clubs with valuable property such as a stadium for example, is the asset lock. The asset lock is a core, statutory feature of a CIC and therefore cannot be altered. The lock works by preventing the transfer of assets below their market value to any directors or members, and in this way stops the stripping of assets out of the company for re-sale at a profit.[6]

CICs have been less of a success than had been anticipated. A key motivation behind their development was to unleash a wave of commercial investment into social activities, by providing a framework for investors to make a decent return while protecting the community benefit that the structure was designed to foster.

This novel regulatory model seems to have been caught between two stools. Investment levels in CICs are lower than expected. A major cause of this has been blamed on the dividend cap being too low, putting off major investment. One notable example of this 'investment ceiling' has been the case of Ealing Community Transport. One of the largest social enterprises in the country and a CIC, it was recently forced to sell a key part of its business as it had failed to find a way to raise sufficient equity finance (by selling shares). However, others feel that the community interest test, designed to protect the social purpose of a CIC, is too easily bypassed.[7] Indeed, one notable fact is that the asset lock does not prevent the sale of a CIC's assets, just blocking sale of assets for a price *below the market value.*

<u>IPS - Industrial and Provident Societies</u>

IPS structures can also, like a CIC and even a PLC, give members limited liability. IPSs can take two forms.

The first is a co-operative society where regardless of how many shares a member owns, he or she only has one vote. This is another mechanism by which the company can be protected from over-centralised control. In the case of private companies, if a single shareholder controls a majority of the shares – even by a slim margin – that person can control the entire company regardless of what other shareholders may want. Therefore a co-operative society is essentially a democratic form of ownership. The other structure is a Community Benefit Society which requires that the enterprise makes explicit what this benefit is, and why the structure is therefore needed.

IPSs are, despite some similarities, significantly different to private companies:

- They operate a democratic ownership structure that is one-member-one-vote regardless of how large or small a stake in the overall company any individual may hold.
- There are limits on shareholding, so that a member must hold at least 1 share but is limited to a maximum of £20,000. The share interest, money payable on

[6] The experience of Brighton and Hove Albion with the old Goldstone Ground is a good example of what can happen without these safeguards.
[7] Patrick Butler, 'A vote of no confidence in social enterprises?' <u>The Guardian</u> August 20th 2008, Guardian.co.uk

share ownership, is also capped against what is considered "necessary to obtain and retain enough capital to run the business".
- Finally, and in common with CICs, IPSs can install an asset lock to prevent the sale of the society and the subsequent selling-off of its assets for distribution to the owners.

The above constraints provide a framework within which an IPS can operate like a private company and benefit from investment. For example, an investor does not need to be a direct beneficiary of the activities of the society. Thus share capital can be raised for investment in the growth of the society, and it can be repaid to generate revenue for investors within the constraints set out above. If there is doubt about how large membership organisations can grow to, then it should be remembered that the world's largest consumer cooperative society is the Co-operative Group which has a turnover of £9.4 billion. Membership organisations need not remain tiny in order to be managed and compete against privately-held rivals. FC Barcelona, the Catalan football club, has a membership in excess of 100,000 individuals who participate in electing directors and the club's chief executive.

The ability to raise share capital is critical. It allows two inter-related activities. Firstly, in the case of a locally rooted football club, it allows local investment which will not be crowded-out by dominant single investors thanks to the cap on shareholdings. Secondly it allows a more flexible and long-term approach to be taken than would be allowed by a loan from a bank which has to be begun to be repaid immediately. Additionally share capital, because it is the last type of investment to be repaid in case of bankruptcy, helps to attract other investors and in particular lenders at more favourable terms. This is because the share capital can be used as security against loans. Finally, the lack of a need to repay interest payments means that revenue can be retained within the society.

This combination of restraints and flexibility points the way to how alternative ownership structure permit a greater capacity to recognise non-financial forms of value. Democratic, as opposed to shareholding-based, voting permits the wider concerns of stakeholders and a community to be given greater weight. Capped investment amounts mean that even humble investors in a local community are not deprived of the opportunity to invest in and benefit from the growth and success of the society that they may be contributing more than just money toward, often giving of their time and other resources. Nevertheless the flexibility of this model allows investors to sell out if they must by transferring shares.

The Government is currently concluding a wide-ranging consultative review of legislation that covers IPS structures. Proposals being considered are designed to increase further the degree of flexibility in running societies and investing in them. A key benefit and practical advantage of IPS structures is their ease and relative low-cost to develop.

A final factor to consider in terms of how alternative ownership structures can better capture social value creation is the way in which an IPS can incorporate its investors, its community and its customers. In fact, these can often be the very same people and by providing their custom they benefit themselves as investors but moreover they have a genuine stake in the operation of the society thanks to the democratic ownership model.

4. Concluding remarks: social value and ownership

‘Value’ has traditionally been viewed as being synonymous with *financial* value. We are often told that Real Madrid or Manchester United are the ‘biggest’ clubs in the world, by which is meant the annual income generated from ticket sales, TV, sponsorship and so on. While financial returns are obviously important, the unique position of many English football clubs is such that they will create (or destroy) social value whether they intend to or not.

We have also seen that it is possible to measure this social value creation, with the sources of value being derived from the stakeholders of the club. The social return on investment (SROI) methodology developed by nef in the UK is the best available means of doing this.

An important difference between SROI and other tools is that SROI produces a monetised figure, which can be combined with financial returns to give a holistic total for social value that is comparable across different organisations. This approach would allow a genuine comparison of the real worth of football clubs: where a club generates less financial returns than some but produces more social returns, the ultimate total social value would give a very different picture of the two clubs’ real ‘net worth’.

We have also suggested that the form of ownership model that a club adopts will have a strong influence on its primary purpose – i.e. what the club is ultimately for. Where the club is a PLC or privately-held by professional investors, financial returns will be the overwhelming concern. This is not all bad news for supporters, as financial success will be closely associated with success on the field. However, as many fans would testify, ever rising ticket prices and new and expensive kits can create a strong impression of being milked dry at every opportunity. Furthermore, these seemingly inexorable increases have priced many people out of the market – not least local people on low incomes – thus negatively impacting upon community cohesion and being destructive of social value.

With billionaires who seek glory rather than financial returns, the situation is somewhat different, though it is unlikely that such owners prioritise the heritage and community linkages of our historic clubs to the same extent as supporters do.

At the other end of the spectrum, mutual or cooperative forms of ownership may be the best means of directly involving stakeholders in the local community, have been used successfully in continental Europe for many years and are now beginning to re-emerge in the UK. When we think about the forms of engagement stakeholders may have with a club, there is a potential trade-off between depth and breadth. A club owned cooperatively by its supporters will be deeply embedded in its community and generate high levels of social value. At the other extreme, a club that seeks to be a global brand with a supporter base spread around the world will also generate social value, but to a far shallower degree.

While there need not always be a tension between financial and social returns, a balance clearly needs to be struck. Where the financial is the only priority, this is likely to have a negative impact upon social returns. On the other hand, were a club to only consider the social return on its activities, it would be likely to soon run into financial difficulties, or at least not generate sufficient revenues to allow the club to progress.

The outstanding question, therefore, is how the need for social and financial returns can be best balanced to achieve the three key functions given above:

- Generate revenue to invest for the team and the club
- Operate as a social and community institution
- Prudently protect the future of the club

By combining both social and financial returns into a composite measure of social value, the social return on investment (SROI) methodology is uniquely well designed to determine how models of ownership influence the balance of priorities regarding the search for financial and social returns. That is, which ownership models generate the greatest and most sustainable social value?

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