

UEFA Financial Fair Play: An analysis of  
the effect on Premier League clubs



# Dissertation

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Student Number: 1596680

Course: BMBA9BSMAP09

Word Count: 19785

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## **Proposed Title:**

UEFA Financial Fair Play: An analysis of the effect on Premier League clubs.

## **Declaration**

I the undersigned declare that the project material, which I now submit, is my own work. Any assistance received by way of borrowing from the work of others has been cited and acknowledged within the work. I make this declaration in the knowledge that a breach of the rules pertaining to project submission may carry serious consequences.

Signed:

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Andy Darling

## **Acknowledgements**

Firstly I would like to give special thanks to the dissertation supervisor, Andrew Quinn, which through our insightful conversations gave me much direction and inspiration in formulating and generating ideas. Our meetings were instrumental in completing this dissertation.

I would also like to thank my family and fellow students who at times felt the same sense of pressure and helped through their words of encouragement and motivation.

Finally I would like to thank the interviewees (Daniel Geey, Ed Thompson and the two interviewees who would prefer to remain unknown) for their time and input into my primary research.

## Chapter 1: Introduction

### 1.1 Background

In the late 1990's it began to become apparent that whilst European football was benefitting from dramatically higher revenues, these higher revenues did not translate into profitability for clubs. Rather these revenues were largely being spent on a race to acquire playing talent. This race also led to a dramatic increase in elite players' salaries, leading to concern that leagues across Europe would become a race between owners with the greatest financial resources, and therefore undermining the integrity of the competitions. At the same time many clubs began to make significant losses which could be sustained through subsidies from public bodies or private investors. It also led to clubs going bankrupt and leaving a wide range of creditors unpaid. In response to this phenomenon financial fair play regulations (FFPR) were introduced by Europe's football governing body, UEFA (The Union of European Football Associations) to secure the long term finances of European football clubs. UEFA, is an association of associations, a representative democracy, and is the umbrella organisation for 54 national football associations across Europe (UEFA, 2014). Their objective was to secure the long term financial status of European football.

UEFA's Executive Committee unanimously approved the financial fair play concept for the game's well-being in September 2009 and received full support from the entire football community also. The FFP's key principal objectives are:

- To introduce more discipline and rationality in club football finances
- To decrease pressure on salaries and transfer fees and limit the inflationary effect
- To encourage clubs to compete within their revenues
- To encourage long term investments in the youth sector and infrastructure
- To protect the long term viability of European club football

- To ensure clubs settle their liabilities on a timely basis (UEFA Protecting the game, 2014)

These approved objectives reflect the view that UEFA has a duty to consider the systemic environment of European club football in which individual clubs compete, and in particular the wider inflationary impact of clubs' spending on salaries and transfer fees.

In recent seasons, many clubs have reported repeated, and worsening, financial losses. The wider economic situation has created difficult market conditions for clubs in Europe, and this can have a negative impact on revenue generation and creates additional challenges for clubs in respect of the availability of financing and day-to-day operations. Many clubs have experienced liquidity shortfalls, leading for instance to delayed payments to other clubs, employees and social/tax authorities.

Therefore UEFA have introduced the FFPR (Financial Fair Play Rules) in an attempt to realise these goals. The rules include an obligation for clubs to balance their books by passing the FFPR “break even” test. By adhering to the FFP regulations, clubs cannot spend more than their generated revenues and clubs must all ensure that liabilities and expenses are paid in a timely manner.

The FFP measures involve a multi-year assessment, enabling a longer-term view to be formed and within the wider context of European club football. They reach beyond the existing UEFA club licensing system criteria that are primarily designed to enable an assessment of a club's financial situation in the short term, and are primarily administered by the governing bodies in each UEFA national association.

The UEFA Executive Committee approved the formation of the two-chamber Club Financial Control Body (CFCB) in June 2012 to oversee the application of the FFP regulations. The CFCB replaced the Club Financial Control Panel (CFCP), which had monitored clubs since

the first introduction of the regulations in May 2010, with the main evolution being that the CFCB is an UEFA Organ for the Administration of Justice. It is also competent to impose disciplinary measures in the case of non-fulfilment of the requirements, and to decide on cases relating to clubs' eligibility for UEFA club competitions. The UEFA FFPRs, which were approved in May 2010 after an extensive consultation period and updated in the 2012 edition, are being implemented over a three-year period, with clubs participating in UEFA club competitions having their transfer and employee payables monitored since the summer of 2011, and the break-even assessment covering the financial years ending 2012 and 2013 to be assessed during 2013/14. (UEFA Protecting the game, 2014)

This paper will seek to analyse the key factors that are affecting Premier League clubs in their attempts to pass the FFPRs and break even test.

## 1.2 Topic Importance and rationale:

The FFPR is an extensive piece of legislation which has been introduced throughout European football. The rules aim to secure and maintain the financial future of football clubs.

The key areas this study will explore are:

- What are the financial fair play rules that are currently in place and how do Premier League clubs need to adhere to these rules?
- What effect will these rules have on future spending, particularly regarding transfers?
- What effect will these rules have on future short term and long term success?
- Are there loopholes in the FFPR that clubs will attempt to bypass?
- Will the FFP rules benefit some clubs more than others?

Football is one of the biggest industries in the world and can have a massive effect on other industries also. For example, the performance of teams can have a knock on effect to public houses, television rights and newspaper articles. This study will look into the aspects surrounding football clubs finances and will demonstrate how the new legislation will benefit the future of football in the long term. The FFPRs which came into effect in May 2014 is a defining point in the future of European football. This study should help generate an understanding of the financial regulations in place for Premier League football clubs. It will also aim to remove any doubt or speculation surrounding the future of football clubs and will explain how clubs will need to adhere to the regulations to secure their long term success. It will also analyse situations that have recently arisen in the football industry and will search to find outcomes of how clubs should aim to deal with the changes. This study should benefit general football fans, football clubs and their representatives as well as audiences that have financial interests. As this topic is a very recent and contemporary subject, it will also provide a platform for future research in this area.

### **1.3 Suitability of Topic:**

Sport and football in particular, is a multi-million Euro industry that affects so many people from all aspects of life all around the world. As a football fan, who regularly contributes to the financial income of clubs, via ticket sales and club merchandise, the researcher has a very keen desire to investigate further into the implications of the FFPR and to gain a much clearer understanding of how clubs will behave and perform in the future. The researcher believes that this study will be of great benefit, both on a personal and a professional level, and can be used by club officials, academic students and football association representatives to further their knowledge into the effects of the FFPRs.

#### **1.4 Recipients of the Research:**

Dublin Business School/Liverpool John Moore's University will be furnished with this research project along with the appointed supervisor namely Andrew Quinn.

This is a pioneering study (in terms of industry context) and it is the intention of the researcher that this study aims to clarify the effects that the FFPRs are having and will have on Premier League clubs going forward. This study is also of keen importance for club fans, football association officials and club representatives in order to provide an insight into the financial aspects of their club and industry. It is important for each individual to understand the impact of the extensive financial regulation changes on their club's future performance and success.

The research topic is a very new current and contemporary subject and as such there are very few academic studies carried out on it. This research project will aim to be a benchmark study which can be used for future research. The first phase of FFPRs came into play in May 2014 and therefore the information gained is very topical with regards to news articles and new data. The researcher believes that this study will be one of the earlier studies undertaken in this subject. The research of the study will be of importance on a professional level as the detail and financial data involved will help to build a further knowledge of the interpretation of financial statements.

## 1.5 Research Objectives and Hypothesis

The central objective of this research project is to investigate and analyse what effects the introduction of the FFPRs are having and will have on Premier League football clubs.

Previous articles have analysed what clubs will have to do in order to “pass” and adhere to the FFPRs. However, there is little research done in analysing the effects that these rules will have on clubs futures. Therefore, this study also sets to add a new layer to the research carried out and aims to see if the effects of the FFPRs will help or prevent clubs growth and therefore their ability to reach their potential.

Following the review of the existing literature regarding the FFPRs and due to the lack of industry research conducted into the future effects on Premier League clubs, the following hypotheses have been produced by the researcher:

**H1:** The introduction of the FFPR’s will allow the “large” clubs to grow bigger while growth in “smaller” clubs will slow or diminish entirely.

**H2:** The introduction of the FFPR’s will prevent as many multi-billionaire investors from investing in football clubs in the future as have in the past.

**H3:** Will the FFPR breakeven analysis test taken over a 3 year period slow or prevent the growth of a club? Other industries and companies may have a 20 year plan and will not become profitable within the first 8 years. Is this fair to expect football clubs to operate within this 3 year break even timeframe?

## 1.6 Dissertation Approach

The first aspect when conducting a study of this nature is the review of the existing literature and the official documentation relating to the UEFA FFPR's. The review of the literature will engage the rules and regulations which clubs need to adapt and adhere to. This will involve the analysis of amortisation issues, the break even requirements, club sanctions and club spending trends. It will also cover the way clubs release financial reports and it will analyse the sanction handed to Manchester City, a sanction received for failing the FFP Break Even test.

In developing answers from the testing of the hypothesis and research objectives, the researcher will examine the impact of the FFPRs with financial experts and Premier League club officials through phone call interviews. This is the most salient aspect of the research project as it will identify the areas that the FFPRs are impacting on in Premier League clubs from the perspective and personnel central to the process.

The researcher will use qualitative data analysis methods in collecting this data. The data collected will then be interpreted with a discussion of the data findings. Finally the recommendations and potential solutions for the FFPR's will be provided to assess the future impact of the FFPR's on Premier League football clubs.

## 1.7 Dissertation Plan

The dissertation to analyse the effects of the UEFA FFPR's on Premier League football clubs is incorporated across 6 set out chapters as follows:

The first chapter will provide a background to the topic inclusive of the relevance and usefulness of the study. This chapter will also cover the suitability of the topic for the researcher.

The second chapter will involve a detailed review of the existing literature on the rules and regulations involved in the FFPR's. This critical review will also try to identify if the existing literature has not yet uncovered any other aspects that the regulations will have on football clubs.

The third chapter will set out the design of the research and the methodologies employed in order to gather the data as well as the reasoning behind the selection of these methods.

The fourth chapter will present the collected data from the in-depth interviews that were carried out. This area sets out the results of the research along with its findings.

The fifth chapter will provide the conclusions of the study along with the recommendations of the research findings that merit further investigation.

The final chapter will include a self-reflection piece surrounding the aspects involved in conducting a study of this nature.

Finally, an appendix and bibliography will be provided outlining all external points of reference the researcher has used. It will also outline any additional information used throughout the study.

## **1.8 Scope and Research Limitations**

Due to the time limits involved in this study, the research was conducted over a short time span and the primary research was produced between April and August 2014. Bearing in mind this study has a twelve week time frame before its dead-line, it was not possible to interview all Premier League club representatives and / or football association officials. Therefore, the sample size of two FFP experts (Daniel Geey and Ed Thompson) and two Premier League club officials (club and name of representative to remain confidential) is a limitation of the study. Due to the confidential nature of club finances, club representatives have limited their responses due to confidentiality agreements. Every effort was made to limit the impact of this limitation and signed confidentiality forms were provided to the club representatives, however as requested by these representatives, they have not been included in the appendix of this research project. These research limitations are detailed further in the research methodology section of the study.

## **1.9 Contributions to the Study**

It is important to note the contributions made to this study and any potential effects the study may have on future research. Despite the fact that FFPRs are available to the public, most significant contributions to the study have been made by the existing research carried out by a number of FFP experts. The literature review contained in chapter two of the study details the contribution of the literature relevant to this study and is fully referenced in the bibliography. The in-depth interviews conducted with these experts and club officials have greatly aided the dissertation with their inputs. The interviewees mentioned have a vast knowledge of the FFPRs and have provided a great insight into understanding the research problem and providing the required solutions.

Due to the fact that these regulations are a relatively new introduction (the first sanctions for clubs who failed the break even test was announced in May 2014), this study will provide a reference point for the FFPRs. This study will also contribute to future research studies undertaken as there is little or no research on the effects that the FFPRs will have on Premier League clubs in the future.

## **Chapter 2: Literature Review:**

### **2.1 Introduction:**

The introduction of the FFP rules in European football has created havoc in the football world. Journalists, company directors and club representatives have spent extensive resources in order to gain, understand and interpret the FFP regulations. There have been many publications surrounding the FFP rules and this study will compare and contrast some of these articles to outline the issues that have been raised. While the FFP guidelines and regulations are available to the public, there is also a large amount of data which has only been made available to football clubs. It is important to note that this subject is very contemporary and the research gathered is all very recent – ranging from 2009 to date. As a result, there are very few academic journals which have been produced on this new and ongoing topic. Therefore throughout this chapter, the researcher will analyse a number of key areas in which the FFPRs have impacted. The areas that have been analysed include issues surrounding amortisation, break-even requirements, sanctions, club spending, financial reports, Manchester City and ossification. The research analysed below is largely research that has been completed by some of the industry's leading analysts as well as official UEFA communication. The first topic that will be critiqued is amortisation.

## 2.2 Amortisation:

In 2011, a paper was published by Daniel Geey, “The UEFA Financial Fair Play Rules: a difficult balancing act”. This paper examined the hypothesis that the FFPRs are an effective barrier to entry for mid-level teams. The paper highlighted that these rules entrenches the top clubs, who are able to receive Champions League money and commercialise their rights more effectively leading to more revenue to off-set their cost base against (Geey, 2011). Geey, D. (2011) argued that clubs could not go on a heavy transfer shopping spree prior to the first accounting period between 2011 and 2012. The logic that the shopping spree would be booked in a club’s 2010-2011 accounts and would have no effect on clubs wanting to adhere to the FFPR regulations was unfounded. This was proven wrong through the way each club amortises each player on their balance sheet. An article posted by “The Swiss Rambler”, a football economist, highlighted this when Manchester City posted a loss of £121 million for the year ending 31 May 2010. This article analysed the regulation that “when a player is purchased, his cost is capitalised on the balance sheet and is written down (amortised) over the length of his contract” (The Swiss Ramble, 2010). In other words, a transfer that occurs in the 2009-2010 season will impact a club trying to break even in the first monitoring period in 2013-2014. Geey, D. (2011) highlighted how the amortisation of the transfer fee lasts for the length of the contract and may then be included in calculating a club’s FFPR break-even position. (SEE APPENDIX 1)

The details provided in Appendix 1 show how clubs amortise a player’s value over the length of their contract. The example uses a player that signs in January 2010 for a transfer fee of £10million on a 5 year contract worth £5 million per year in wages. Therefore the transfer fee on the clubs accounts will show as £10 million spread out over the 5 years of the contact, amortised as £2million each year for the 5 years. Therefore the transfer may have taken place

in 2010 however as it is amortized out over the 5 years, the transfer will affect the clubs future years' accounts (Geey, 2011).

In addition to this, the way a player is sold will also affect the clubs balance sheet. The Swiss Ramble's article highlighted this by using Robinho's transfer as an example. Robinho was bought by Manchester City in September 2009 for £32.5 million on a four year contract. Therefore the annual amortisation was £8.125million. Robinho was then sold after two years for a fee of £18million. To the human eye, this would be seen as a loss of £14.5million however this is not the case on the clubs balance sheet. In fact this transfer will be reported on the balance sheet as a profit of sale of £1.75million. After two seasons, Robinho's value on the books was £16.25million ( $£32.5 - 2 \times £8.125$ ). This example highlights how clubs can write off the transfer value of a player over the life-time of their contract (The Swiss Ramble, 2010).

The next section that will be analysed regards the break even requirements.

### 2.3 Break-even requirements:

Article 59 and 60 of the FFPRs assesses the break-even requirements that clubs must adhere to. Article 59 explains how the break-even requirements are assessed over three reporting periods: the reporting period ending in the calendar year that the UEFA club competitions commence (T), the reporting period ending in the calendar year before commencement of the UEFA club competitions (T-1) and the preceding reporting period (T-2) (UEFA Communications, 2012, p.4-5). Article 60 states that all clubs with relevant annual income or expenses over €5 million must prove that the aggregated break-even result of the three periods is positive. The below acceptable deviation levels show how clubs can exceed the €5 million level up to the following amount only if such excess is entirely covered by contributions from equity participants and / or related parties.

- €45 million for the monitoring periods assessed in the seasons 2013/14 and 2014/15
- €30 million for the monitoring periods assessed in the seasons 2015/16, 2016/17 and 2017/18
- A lower amount as decided in due course by the UEFA Executive Committee for the monitoring periods assessed in the following years (UEFA, 2012 p.35).

The figures that Daniel Geey has highlighted are shown in the following table. (SEE APPENDIX 2)

According to Thompson, E. (2013), an Associate of the Chartered Institute of Bankers seen as “one of the country’s leading analysts of UEFA’s FFPR’s” (Tongue, S, 2012), clubs with a wage bill above £52million, annual increases will be capped at £4million a year – clubs will only be able to exceed that limit if they can demonstrate that the additional funds have been generated by increased commercial revenue (such as new sponsorship deals). As a result, this change effectively reinforces the status quo and clubs will now find it difficult to significantly increase their wage spend relative to other clubs. Thompson, E. (2013) also believes that

there may be any number of loopholes which clubs may seek to capitalise on in an attempt to pass the break-even test. Speaking at a seminar as part of the Sports Business Seminar Centre Seminar Series, Ed Thompson highlighted that some of these loopholes may include pure related party transactions, mixed related party transactions and transactions and costs outside club accounts (Geey, D. Thompson, E. & Hamil, S. 2013). The issues that Thompson highlighted leave plenty of room for further investigation and the issues raised have been seconded but not fully investigated by both Daniel Geey and Sean Hamill, a director of the Birkbeck Sports Business Centre (Hamil, S. 2013).

The next section will analyse the possible FFPR sanctions.

## 2.4 Sanctions:

If a club licensing or monitoring requirement is not fulfilled, then the independent CFCP may refer the case to UEFA's independent disciplinary bodies, which takes appropriate measures without delay in accordance with the procedure defined in the UEFA Disciplinary Regulations. Fines or exclusion from future competitions are two of the potential disciplinary sanctions applied (UEFA Communications, 2012, p.7). The first sanctions for clubs not fulfilling the break-even requirement can be taken during the 2013/14 season and the first possible exclusions relating to break-even breaches would be for the UEFA competition season 2014/15. Perez, J. and Santorcuota, S. (2013) believe that if UEFA does not establish its FFPRs in sufficiently fine detail, and enforce the regulations fully, then they may be easily evaded – which may ultimately mean that just a few rich clubs survive. This article goes on to explain that since the introduction of the FFPRs clubs across the first divisions in Europe have reduced losses by approximately €600 million. Awareness has increased amongst clubs with exorbitant wages bills. This being said, Santorcuota and Perez (2013) believe that UEFA should adjust the level of control surrounding new arrivals of billionaire tycoons into the football market. For example, Sheik Mansour bin Zayed bin Sultan Al Nahyan, a member of Abu Dhabi's royal family, who owns Manchester City, which has a £400 million sponsorship contract with Etihad Airways – a firm which is also owned by members of Abu Dhabi's royal family. Despite a Council of Europe committee calling this improper, it is not prohibited by the FFP regulations. They also believe UEFA should control sponsors who overpay and prohibit such closely connected ownership deals, thus avoiding improper transactions (Santorcuota, S. & Perez, J, 2013).

The next section will analyse literature currently available relating to clubs spending.

## 2.5 Club spending:

Since the introduction of the FFP regulations, some Premier League clubs have adopted a new strategic approach aimed at passing the FFPR Break even test. One club which has curbed its spending over the last number of seasons and adopted a lower cost based strategy is Sunderland Football Club. According to Herbert, Ian (2011), Sunderland FC clubs losses in 2009 and 2010 were £23.5million and £25.5million respectively and the club badly needed to reduce its wage bill to stem losses which have set it on course to fail UEFA's FFPR's. At this time Sunderland's wage bill was 72 per cent of turnover in their last financial year and without the change of strategy the club would have been on course to post an aggregate loss of £73.5million. Sunderland FC's owner Ellis Short invested over £67million into the club during 2010 and 2011 however because losses of over £5million a year are only acceptable under FFPR's if there is an injection of equity to cover that loss, he may have had to plough in a further £40million to cover these losses.

Following Sunderland's change in strategic approach in 2011, Sunderland FC's financial results in March 2013 showed a £26million loss, taking their own losses to £44million over two years meaning that the owner Ellis Short would need to inject around £30million of equity into the club in order to meet the FFPR which would allow the club to apply for a UEFA licence (Herbert, I. 2013).

Another club that has also adopted this low cost strategy is Aston Villa FC. According to Conn, D. (2013) following the introduction of the FFPR's, Aston Villa also changed their approach to reduce their spending. Aston Villa FC announced a loss of £17.7 million for the year ended 31 May 2012, a reduction of approximately £36million from the previous year which was mainly achieved by cutting the wage bill and selling players. Aston Villa's income fell in 2011-2012 by £11.6million, 12.6% to £80million and overall staff costs during this period were reduced by £13.8million to £70million. Figures for this period were largely due

to a profit on player trading of £27million. Conn, D. (2013) also reported that Aston Villa owner, Randy Lerner, waived interest on loans to the club totalling £107million, costing him £20million personally, in an attempt for the club to pass the FFPR's.

In the financial period ending 31 May 2013, Aston Villa reduced their operating losses by £9.5million to £42.6million (Kendrick, M. 2014). The loss for the financial year however increased by £34.1 million to £51.8million largely due to the lack of player sales generated. Although the 2012-2013 accounts still show large losses, it is believed that the next set of accounts for 2013-14 will show the club is self-sufficient (Kendrick, M. 2014). According to Russell, R. (2014) Aston Villa's chief financial officer, "The 2012-13 accounts effectively close a chapter on a period of heavy losses. As we near the end of the 2013-14 season, the club is financially self-sufficient, compliant with both UEFA's and the Premier League's Financial Fair Play requirements and we look forward to a period of continued growth and progress on and off the pitch."

Adopting this low cost strategy, clubs are aiming to comply with the FFP regulations.

However if the club does not seek European qualification, then the FFPR's will not need to be met and they will only need to adhere to the less stringent Premier League financial regulations. This throws up a strategic dilemma for football clubs. If clubs are ambitious and want to grow and play in European football then they will need to reduce their spending to stay within the UEFA FFP regulations. However, if clubs do not have the ambition to play European football, they do not need to adhere to these regulations and effectively can spend more. The Premier League does not disclose which clubs have applied for a UEFA licence and therefore fans are unaware of the true ambition that each club has. In effect, fans may turn up to multiple cup games unaware that the club cannot compete in UEFA competitions even if they are successful (Herbert, I. 2013). The next section will analyse clubs financial statements.

## 2.6 Misleading Financial Reports

According to Thompson, E. (2013) Premier League clubs are resorting to increasingly devious actions to bury bad financial results. It is clear that most of what football clubs do, comes in to the media spotlight and clubs have started to resort to different ways of releasing their financial results in ways to avoid “bad press”. Ultimately, the majority of football fans do not slog through financial statements and reports that clubs release and they are largely reliant on journalist’s interpretations. As such, clubs have adopted approaches that time the release of their financial results in a way that the full extents of their reports are not fully highlighted. Aston Villa F.C. released their annual accounts at 4.30 on a Friday afternoon, a set of results that were extremely poor. This was a ploy that worked very well as most journalists had completed their articles and had finished work for the day. By the following Monday, this was “old news” and the poor results were all but forgotten in the public eye.

Other clubs have followed similar tactics. Manchester City for example, also released a poor set of results on a Friday afternoon. Manchester City’s approach was somewhat more cynical and not only did they release their statements without making journalists aware, they also managed to provide journalists with different stories earlier that day. According to Drayton, J. (2012) when these figures were released in the afternoon, they were accompanied with a press briefing which highlighted seemingly incorrect information. Ultimately, Manchester City’s plan worked, and the fact that the club owners paid £12million to the club for “intellectual property” slipped under the media radar entirely (Thompson, E. 2013).

Most devious of all are Chelsea FC and Fulham FC’s approaches. Both clubs made upbeat press releases in advance of the release of their full figures. In Fulham’s case, the club announced that it had made an Operating profit of £1.2million. However, when the results were actually filed at the Companies’ House, it was clear that the club had not made any Operating Profit and in fact the accounts reported an Operating Loss of circa £900,000.

According to Thompson, E. (2013) the accounts revealed that the definition of Operating Profit used by Fulham did not incorporate the amortisation of player transfer fees. Thompson, E. (2013) also analysed these figures in even more detail and ultimately the truth of the results was that Fulham FC had made a loss of circa £18.75million for that period. The breakdown of these figures can be seen in Appendix 3.

According to Tongue, S. (2012) Chelsea FC used a similar approach to disguise a cancellation of approximately £18.5million preference shares, by declaring a press release stating they had made a £1.4million profit over the 2011/12 season. What these situations show, is that the introduction of FFPRs has made clubs react in all kinds of ways in an attempt to pass the FFPR's break even test, but also to attempt to show a perceived public level of financial stability by ultimately providing false information to the general public. Are clubs doing this in an attempt to place themselves into a more powerful position when negotiating prices with other clubs? Ultimately however, these approaches will not benefit clubs in their attempts to pass the FFPRs break even test.

The next section will analyse Manchester City and how they failed the first break even test in May 2014.

## 2.7 Manchester City fail the Break Even Test

In May 2014, the results of the first period of FFP fines were released. Nine clubs around Europe failed and were given sanctions, however only one of the twenty Premier League teams failed this FFP Break Even test – Manchester City: SEE APPENDIX 4.

Manchester City were handed a €60m (£49m) fine by UEFA for failing to comply with FFPRs and told it must cut its squad for next season's Champions League from 25 players to 21 players. According to Blitz, Roger (2014) Manchester City accepted the sanctions and didn't appeal, however they did have a "fundamental disagreement" with aspects of the European football governing body's break even rules. Blitz, Roger (2014) also noted that two thirds of their €60m fine will be returned if they fulfil UEFA's specified measures on operation and finances over the next two seasons.

According to Thompson, Ed (2014), Manchester City did not fail the test because of an oversight or fundamental disagreement: they failed because they chose to fail. Thompson, Ed, (2014) explored further and likened Manchester City's situation to the following analogy:

"I recently handed my son £5 to buy some sweets, telling him to spend no more than £1. Inevitably, he came back with quite a lot of sweets having spent about £1.50. He didn't exceed the budget because he wasn't able to count, he just evaluated the pros and cons and viewed that the extra sweets were worth the telling-off he was likely to get. It was a conscious and rather calculated decision to overspend and take the punishment. He also made a conscious decision not to go massively over the budget".

Based on the above analogy, it is believed that Manchester City made a conscious decision to fail the break even test, prioritising on-field performance over the possible sanction for failing. Thompson, Ed (2014) pursued this issue by noting that the FFPRs were agreed by football clubs in 2009, meaning that Manchester City had plenty of time to adjust to the rules.

By hiring sophisticated accountancy teams, Manchester City were able to weigh up the merits of complying with the rules against any likely punishments received. Reining in the spending to meet the FFPR's would have certainly reduced their ability to compete on the field.

Thompson, Ed (2014) highlighted two decisions that Manchester City made to prove their overspending. Firstly, Manchester City sacked their manager Roberto Mancini in May 2013, less than three weeks before their account period end. Rather than wait those extra weeks, and potentially miss out on their chosen manager the club simply decided to push ahead with this decision and ultimately overspend: a deliberate choice.

Secondly, if Manchester City were focused on adhering to the FFPRs, they could and would not have spent approximately £38million on the transfer fee of Sergio Aguero. It is clear that they prioritised on-field success rather than financial regulations. During the past three Premier League seasons, Manchester City have been champions of the Premier League two out of the three seasons. Manchester City's decision to somewhat ignore FFPRs has helped their on-field success, however other clubs and competitors during this period have adhered to the FFPRs and not spent in the same way that Manchester City have. This raises a number of issues regarding the severity of the sanction Manchester City received and whether or not the sanctions and fines are justified and fair for all clubs.

The next section will analyse the issues surrounding the ossification factor.

## 2.8 Ossification

According to Szymanski, S. (2013) the “open” system by which European football has been operated is now coming to an end, and will quickly become a “closed” American-style system. Szymanski believes that the introduction of the FFPRs will have a complete ossification effect, meaning that the rich clubs will remain rich and the poor clubs will remain poor. Szymanski, S (2013) believes that the FFPRs will be a big change in European football, and the old school notion that anyone, anywhere can set up a club, and through the pyramid system of promotion and relegation, aspire to play in the Champion League will no longer exist. In a study completed by UEFA (2011), 63 per cent of clubs in Europe’s top divisions were reporting an operating loss while 55 per cent were reporting a net loss overall. This was despite the fact that club revenues had grown at an annual rate of 5.6 per cent in the previous five years. Blitz, Roger (2013) also notes that wages since 2007 have risen by 38 per cent compared to an average increase in turnover of 24 per cent.

This being said, Szymanski, S (2013) believed that the FFPRs were an attempt by UEFA to adopt a similar structure to the US, whose leading sports leagues have developed hugely successful championships based on a shifting bargain among franchise owners. Rules for sharing revenues and player salary caps were designed to maintain a competitive balance between teams. This however makes barriers to entry high, for example buying into a US National Football League or Major Baseball club / franchise will cost approximately \$1billion. Szymanski, S (2013) therefore believes that the FFPRs will limit the potential for big clubs to be challenged by others.

The next section will highlight the gap in the research that is currently available.

## **2.9 Gap in research:**

The literature that is currently available explores and analyses the regulations that have been put in place for football clubs to adhere to the FFPR's. Most of the literature explores regulation issues surrounding amortisation of player's wages and transfer fees, the details of the break even analysis requirements and the possible sanctions involved for those clubs who fail to meet those requirements. The literature also analyses the strategic changes clubs have had to make in the last number of years and shows the different approaches clubs have adopted to avoid negative results.

However, it is clear that there is currently little or no literature available which analyses the affects that the regulation will have on Premier League clubs future performance and success. The literature clearly indicates what standards clubs need to meet in order to pass the FFPR's. However, it does not portray the actions and effects these actions will have on clubs future performance and successes.

In addition to this, the current literature does not examine who the FFPR's will affect most or how these regulations will affect football clubs future finances and growth / decline. This study is novel and unique in this way and fulfils a gap in the current literature.

The next section will outline the research questions for this study.

## 2.10 Research Questions:

The key areas this study will be looking at are:

- What are the financial fair play rules that are currently in place and how do Premier League clubs need to adhere to these rules?
- What effect will these rules have on future spending, particularly regarding transfers?
- What effect will these rules have on future short term and long term success?
- Are there loopholes in the FFPRs that clubs will attempt to bypass?
- Will the introduction of the FFPRs affect all clubs equally or will a trend occur?

There are a number of reasons for pursuing this research topic. As stated previously, there is a lot of speculation that clubs may try to find loopholes in the FFPRs in an attempt to enhance their finances and avoid failing the break even test. The main reason why the FFPRs were introduced was to secure the future of European football. Some sceptics believe that the regulations were only introduced to stem the amount of rich tycoon investors currently purchasing football clubs and pumping billions into new playing staff at unsustainable levels. However, it is clear that the FFPRs are aimed at securing the entire footballing community. At an economic time where growth has slowed in many industries, transfer and salary inflation in football had increased tenfold. Premier League clubs like Manchester City are paying out £639,000 a day, or £26,000 an hour, £433 a minute in wages (The Independent 2014). It is clear that without these regulations, this hyperinflation of salaries would not be sustainable. The bigger clubs would become even stronger and the smaller / poorer clubs would get priced out of an uneven market and therefore may cease to exist. The FFPRs attempt to prevent this from occurring and aim to secure the long term stability of all clubs. The above research questions will provide information on how the FFPRs are affecting Premier League clubs. They will provide information on how clubs spending habits will alter, and will aim to provide a definitive conclusion as to how spending habits of clubs will be

maintained over the long term. The research questions themselves will show this but exploring the questions will help provide data which will clearly show if there is a club that is operating the perfect and most sustainable model. The research questions will also expose any loopholes that may or may not exist within the FFPR.

The next chapter will discuss the methodology used for this study.

## **Chapter 3: Methodology:**

### **3.1 Introduction**

Somekh and Lewin (2005) define methodology as both “the collection of methods or rules by which a particular piece of research is undertaken” and the “principles, theories and values that underpin a particular approach to research” (p.346) while Walter (2006) argues that methodology is the frame of reference for the research which is influenced by the “paradigm in which our theoretical perspective is placed or developed” (p.35) The most common definitions suggest that methodology is the overall approach to research linked to the paradigm or theoretical framework while the method refers to systematic modes, procedures or tools used for collection and analysis of data (Mackenzie and Knipe, 2006). The intention of this study is to analyse the effect that UEFA Financial Fair Play rules will have on Premier League clubs and to identify any potential gaps or loopholes within the regulation that clubs will seek to capitalise on. Within this study, the research will also focus on obtaining a definitive answer on the ossification issue as well as seeking potential recommendations that clubs should follow in order to succeed. This section of the study details the methodology behind the research including the research design, data collection and analysis methods, as well as the associated dilemmas that research of this nature can encounter.

The next section will discuss the research questions used to gain primary research.

### 3.2 Research Questions:

Saunders et al. (2007) describe the research question as a key driver behind the research process. Therefore it is important that the research questions are clearly defined in accordance with the objectives of the research. For the purposes of this research the following questions have been formulated to identify and assess the effect the FFPRs are having on Premier League football clubs:

- Does the scale of financial instability in European club football justify the FFP's introduction?

The reasoning behind this question is to allow the researcher to gain an understanding of how unstable and unsustainable the finances within the football industry are.

- To what extent will clubs need to change their strategy?

By seeking information relating to the clubs current strategy, this allows the researcher to analyse the shift in decision making within the Premier League football clubs.

- What are the barriers to its effective implementation and how might they be overcome?

This is an important question that aids the researcher in identifying how problems may arise that may prevent a complete and efficient introduction of the FFPRs. The question also aims to find the solutions to how these barriers may be overcome.

- If the FFPRs are successfully implemented, what might be the unintended consequences?

This is also an important question that aids the researcher in identifying any unintended consequences that may arise as a result of the FFPRs introduction. It helps to analyse all factors that affect football clubs and not just how a club operates.

- If the FFPRs are not implemented successfully what might be the consequences?

Leading on from the previous question, this helps the researcher in formulating negative reasons for how the FFPR will impact Premier League clubs. It also helps to focus on how the growth of football clubs may stutter.

- Will clubs be able to continue pure related party transactions (E.G. sponsorship deals) without breaching FFP rules? How can this be judged /punished?

By seeking information related to pure related party transactions, this allows the researcher to analyse how clubs record and distinguish multiple sponsorship and commercial deals. This will also aid the researcher in interpreting how these deals will affect clubs with regards to the “break even” test.

- Will clubs be able to continue mixed related party transactions (E.G. naming rights)? How can the fair value be judged and monitored?

Following on from the previous question, this question will also aid the researcher in interpreting the effect of mixed related party transactions and how these deals will affect the “break even” test.

- How are clubs transactions and costs measured if they deem them as outside accounts?

This question will highlight how transactions are measured and recorded and if any discrepancies on clubs accounts exist.

- Do you think the FFPR's will benefit clubs in the long term?

This is an important question that aids the researcher in gaining an overall opinion of the FFPR's introduction. This question will seek the interviewee's personal opinion.

- Do you think the FFPR's will affect Premier League clubs more than clubs in the rest of Europe and why / why not?

Following on from the previous question, this question will also aid the researcher in gaining the interviewee's opinion.

Once the questions have been established, the researcher will attempt to verify the following hypotheses:

**H1:** The introduction of the FFPR's will allow the "large" clubs to grow bigger, while growth in "smaller" clubs will slow or diminish entirely.

**H2:** The introduction of the FFPR's will prevent as many multi-billionaire investors from investing in football clubs in the future as have in the past.

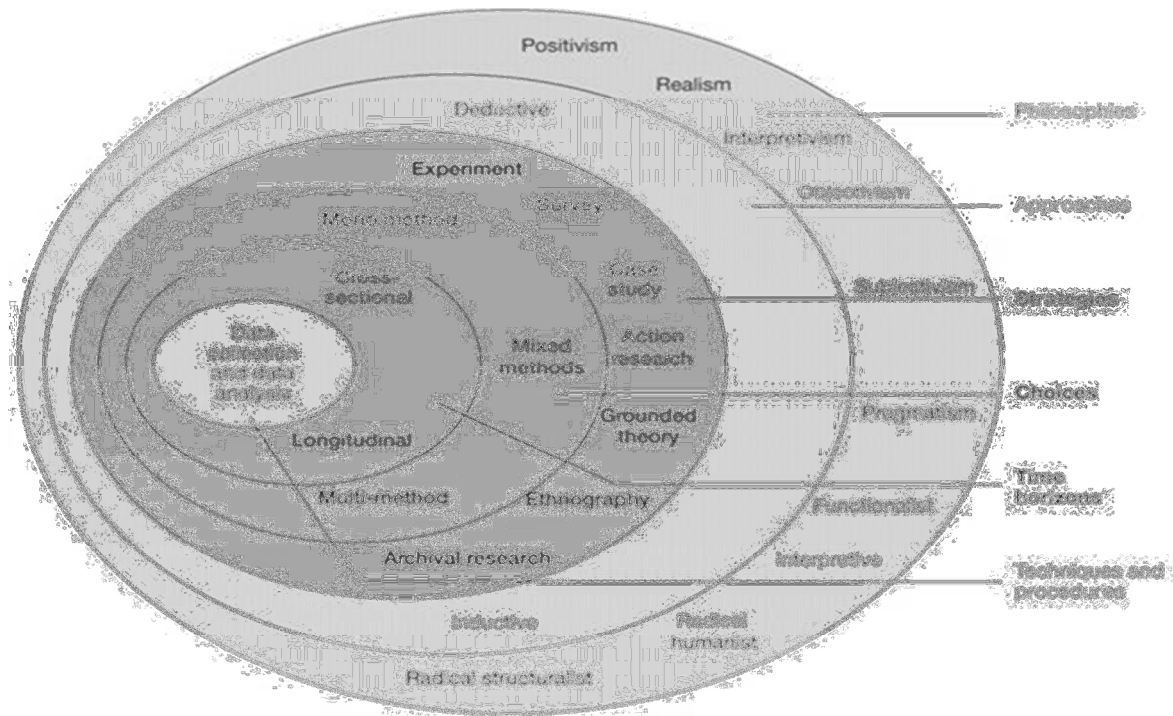
**H3:** Will the break even analysis test taken over a 3 year period slow or prevent the growth of a club? Other industries and companies may have a 20 year plan and will not become profitable within the first 8 years for example. Is this fair to expect football clubs to operate within this 3 year break even timeframe?

The next section will discuss the proposed methodology.

### 3.3 Proposed Methodology:

This research onion (see figure 1) will map and develop the research methodology for this study. This will include a suitable research approach, relevant strategies and philosophies as well as the techniques involved in the collection and analysis of the data.

Figure 1: The research “onion”:



Source: Saunders, Lewis and Thornhill (2007, p.102)

The next section will explore the research philosophy.

### 3.4 Research philosophy:

The first layer of the onion deals with the philosophical approach to conducting the research.

The research philosophy according to Saunders, Lewis and Thornhill (2007, p.101) “contains important assumptions, these assumptions will underpin your research strategy and the methods you choose as part of the strategy”.

Developing a philosophical perspective requires that the researcher make several core assumptions concerning two dimensions: the nature of society and the nature of science (Burrell and Morgan, 1979). Society is viewed as unified and cohesive, whereas the sociology of radical change views society as in constant conflict as humans struggle to free themselves from the domination of societal structures (Burrell and Morgan, 1979. p13). The other dimension, science, involves either a subjective or an objective approach to research, and these two major philosophical approaches are delineated by several core assumptions concerning ontology (reality), epistemology (knowledge), human nature (pre-determined or not), and methodology (Holden and Lynch, 2004).

Ontology is concerned with the nature of reality and assumptions researchers have about the way the world operates and the commitment held to a particular view (Saunders et al, 2009).

Epistemology is concerned with the study of knowledge and what we accept as being valid knowledge (Collis and Hussey, 2003). An Epistemological issue concerns the question of what is (or should be) regarded as acceptable knowledge in a discipline (Bryman, 2004).

According to Saunders et al, (2007), there are three epistemological approaches to research philosophy: Positivism, Realism and Interpretivism.

### Positivism:

The positivism approach is normally adopted by researcher that prefers to seek facts or causes of social or business phenomena using logical reasoning such as precision and objectivity as methods of investigation.

The positivism approach is normally adopted by a researcher that prefers to work with an observable social reality in order to come up with law-like generalizations similar to those produced by the physical and natural scientists (Remenyi et al, 1998), and in this tradition, the researcher becomes an objective analyst, coolly making detached interpretations about those data that have been collected in an apparently value-free manner (Saunders et al, 2003). Furthermore, the emphasis is on a highly structured methodology to facilitate replications (Gill & Johnson, 1997) and on quantifiable observations that lend themselves to statistical analysis (Saunders et al, 2003). The assumption is that the researcher is independent of and neither affects nor affected by the subject of the research (Remenyi et al, 1998; Saunders et al, 2003).

### Realism:

Realism states that real objects exist independent of human consciousness, but that knowledge is socially created (Saunders et al, 2007). According to Blaikie (1993), whilst realism is concerned with what kinds of things there are, and how these things behave, it accepts that reality may exist in spite of science or observation, and so there is validity in recognising realities that are simply claimed to exist or act, whether proven or not. Similar to interpretive, realism distinguishes that natural and social sciences are different.

From an organisational perspective, Hatch and Cunliffe (2006) describe the realist researcher as enquiring into the mechanisms and structures that underlie institutional forms and

practices, how these emerge over time, how they might empower and constrain social actors, and how such forms may be critiqued and changed. Realists take the view that researching from different angles and at multiple levels will all contribute to understanding since reality can exist on multiple levels (Chai, 2002).

### Interpretivism:

There have been many criticisms on positivism which define “laws” in the same way as physical sciences in the complex social world of business and management. This led many researchers to argue for an interpretivistic approach. Interpretivist studies are characterized by the prioritization of subjective meanings and social-political as well as symbolic action in the process through which humans construct and reconstruct their reality (Avgerou and Walsham, 2000), which emphasises on conducting research among people rather than objects.

For the purpose of this study, the researcher will adapt an interpretative philosophy. The research involves a social world interpretation of financial records and the perceptions of how the regulation will affect future financial performance. Therefore, this philosophy is suitable to the study as “Interpretivism is an epistemology that advocates that it is necessary for the researcher to understand differences between humans in our role” (Saunders, Lewis and Thornhill, 2007 p.106).

The next section will explore the research approach.

### 3.5 Research Approach:

The next element or layer of the onion is the type of approach the study will utilize. There are two types of research approaches namely inductive and deductive research.

#### Inductive research:

Saunders et al (2007), state that inductive approach involves the development of a theory as a result of the observations of empirical data. Qualitative research strategy is regarded as inductive. According to Rocco et al (2003), inductive logic and qualitative methods are generally employed with the goal of understanding a particular phenomenon of interest within its social context.

#### Deductive Approach:

Bryman (2004) states that deductive approach is an approach to the relationship between theory and research in which the latter is conducted with reference to hypotheses and ideas inferred from the former.

Quantitative research strategy is regarded as deductive. The theory used in the research becomes as a framework for the whole study, organizing model for the research questions or hypotheses and procedure for data collection (Creswell, 2003, p.125). Researchers that adopt the inductive approach focus on understanding the meanings and interpretations of social actors and to understand their world from their point of view, are highly contextual and hence are not widely generalizable (Saunders, Lewis and Thornhill, 2007). For the purpose of this study the approach favoured is an inductive approach.

Including “what” and “how” type questions, the focus of this study will mean the induction approach is more suitable for this case study analysis. Flexibility in building theories and a flexible structure is another characteristic of the study that aligns itself more favourably with

an inductive approach. Saunders, Lewis and Thornhill (2007, p.120), describe the inductive approach as an emphasis on “gaining an understanding of the meanings humans attach to events, a more flexible structure to permit changes of research emphasis as the research progresses”.

The next section will explore the research strategy.

### 3.6 Research Strategy:

The next level of the research onion is the research strategy. Saunders et al (2003) describes the research strategy as a generic plan guiding the way for the researcher to answer the research questions set forth. According to Collins and Hussey (2003), the types of research strategy available are: cross sectional studies, experimental studies, longitudinal studies, surveys, actions research, case studies, ethnography, grounded theory, hermeneutics, and participative enquiry. Each type of research strategy could be used for all three purposes: Exploratory, descriptive and explanatory (Yin, 2003). The claim that one research strategy is better than the other research strategy is a myth (Saunders et al, 2007). Elements of the research strategy for this study will involve a case study strategy. According to Saunders, Lewis and Thornhill (2007, p.139), “the case study strategy also has considerable ability to generate answers to the question “why?” as well the “what?” and “how?” questions. For this reason the case study is most often used in explanatory and exploratory research”. With this study seeking to answer “why?” and “how?” questions, this is an appropriate strategy to employ.

The next section will explore the research choice.

### 3.7 Research Choice

The next element or layer of the research onion is research choices. This refers to the methods used for quantitative and qualitative research.

#### Qualitative research:

Qualitative research is one in which the researcher usually makes knowledge claims based on constructivist perspectives (Creswell, 2003). Strategies used in research design involve participative inquiry, phenomenologies, ethnographies, grounded theory studies or case studies. Qualitative research normally emphasizes words rather than quantification in the collection and analysis of data (Bryman, 2004 p.206).

#### Quantitative Research:

Quantitative research is one in which the research primarily uses post positivist claims for developing knowledge for example: cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurements and observations, and the test of the theories (Creswell, 2003). Strategies normally used in this research design are experimental studies, surveys, and predetermined instruments used in data. In addition, Bryman (2004 p.266) states that quantitative research usually emphasizes quantification in the collection and analysis of data.

For the purpose of this paper, the research will adopt qualitative case study research. Given the nature of this case study, the data collection tools used include: reports, conference proceedings, company reports, journals, newspapers and articles. An in-depth interview will be used to seek qualitative information from the respondents.

“In depth interviews are a useful qualitative data collection technique that can be used for a variety of purposes, including needs assessment, program refinement, issue identification,

and strategic planning. In depth interviews are most appropriate for situations in which you want to ask open ended questions that elicit depth of information from relatively few people (as opposed to surveys, which tend to be more quantitative and are conducted with larger numbers of people)” (Guion L, Diehl D, and McDonald D, 2011). Therefore the structure of the in depth interview will be semi structured (allowing room for follow up questions where suitable) with a programme of questions that seek depth of information from respondents. Depth is required from the responses so the researcher can fully evaluate study of the impact of the FFPRs. Interviews will be recorded where possible to allow the researcher to adequately scrutinise and evaluate the data.

Four in-depth interviews will be completed. The interviews will consist of two interviews with UEFA FFP financial experts and two interviews will be with Premier League club representatives.

The next section will discuss the time horizon.

### 3.8 Time Horizon

The next layer of the research onion refers to the time horizon of the study. There are two types of time horizons, cross sectional studies and longitudinal studies. Longitudinal research involves study over longer periods of time and is typically involved in measuring the change during his time period which is not suited to projects with short term restrictions whereas cross sectional studies are noted as snapshots of a particular phenomenon at a particular time (Saunders et al, 2007). Due to the time restrictions for this research, the study is cross sectional. A cross sectional study engages in collection of data on more than one case at a specific time in order to collect quantitative or qualitative data when more than one variable is considered (Bryman and Bell, 2003). Similarly described by Saunders, Lewis and Thornhill (2007, p.148) as “the study of a particular phenomenon (or phenomena) at a particular time.”

APPENDIX 5 illustrates the time allocation table.

The next section will discuss the data collection method.

### **3.9 Data Collection Method**

As the research topic is investigating the effects on Premier League clubs as a result of the FFPR's, the research method is qualitative. "Qualitative is used predominately as a synonym for any data collection technique (such as an interview) or data analysis procedure (such as categorising data) that generates or use non-numerical data" (Saunders, Lewis and Thornhill, 2007, p.145). Therefore as in depth interviews have been selected as the primary data collection method, the technique collates qualitative data. After the researcher's interpretation of this qualitative data, the researcher then develops theories / hypothesis relating to the topic.

Where appropriate the researcher makes use of existing sources of data that are publicly available, also known as secondary sources of data. Secondary sources of data collection are used in the form of company and industry specific organisational websites (internal secondary data), as well as any previous and relevant research papers or journal articles (external secondary data).

The next section will discuss the sampling section.

### **3.10 Sampling Selection**

Sampling and selection are principles and procedures used to identify, choose, and gain access to relevant data sources (Mason, 2002). A sample is "a smaller (but hopefully representative) collection of units from a population used to determine trusts about that population" (Field, 2005). There are two types of sampling techniques: probability or representative sampling and non-probability or judgemental sampling (Saunders et al, 2007).

Non probability sampling is used for this research. Given the size and the scope of the football industry it is not possible for example to interview every club or representative in the Premier League and relevant football associations, considering also the time and budgetary constraints of this study. Samples are not selected at random.

“Non-probability sampling (or non-random sampling) provides a range of alternative techniques to select sample based on your subjective judgement. In the exploratory stages of some research projects, a non-probability sample may be the most practical.” (Saunders, Lewis and Thornhill, 2007 p.226). Therefore suitable selective samples are chosen within football industry. The interviews consist of two interviews with FFP financial experts and two different Premier League club representatives. Therefore the relevant people with relevant experience and know-how have been chosen to analyse the effects of the FFPRs.

Convenience sampling also features in this research into the football industry. The samples described previously will be relatively easy to access and are also in proximity from the researcher conducting the study. Criticisms exist with convenience sampling based on the premise that there is bias in the samples which are non-representative of the complete picture.

“Although this technique is used widely, it is prone to bias and influences that are beyond your control, as the cases appear in the sample only because of the ease of obtaining them” (Saunders, Lewis and Thornhill, 2007 p.234). However, the focus of this study is not on the effect of the FFPR’s on clubs all over Europe or all over the world but a narrower focus on identifying the effect of them on Premier League clubs only.

The next section will discuss the research ethics.

### 3.11 Research Ethics

During this research topic ethical issues are given serious deliberation. Given the nature of the finances within premier league clubs, confidentiality from the researcher is an essential requirement and information of a classified nature should not be disclosed. “In the context of research, ethics refers to the appropriateness of your behaviour in relation to the rights of those who become the subject of your work, or are affected by it.” (Saunders, Lewis and Thornhill, 2007 p.178). Therefore the purpose of the research being undertaken is clearly communicated to all respondents before any research took place allowing respondents time for consideration. No research took place on any organisations / representatives without prior consent and understanding of the nature of the research. The organisations / representatives in questions were also informed prior to the interview of the topics under research.

According to Gray (2003, p.76) it is important that “we approach our subjects of study as participants in our research not as “objects” to be investigated.” As well as letters of consent, confidentiality agreements were drafted and signed for the research purposes. Anonymity of the participants was also a feature of the data collection where requested. During the course of the in depth interviews, participants weren’t obliged to answer any questions which they deemed unsuitable. Agreement was also sought where voice recording instruments are used and participants have the right of refusal of use and any content to be removed from recording.

The next section will explore the research limitations involved.

### 3.12 Research Limitations

By anticipating and trying to identify research limitations in advance, the researcher planned around these issues trying to minimise the effect of the limitations. The most likely limitation in a short term or snapshot research study like this faces is time management. Research was conducted over a short term period. Due to the dynamic nature of the football industry, club representatives have busy schedules so there was limited availability for interviews. Together with the researcher's busy schedule these factors indicated that time management was carefully planned. Due to the lack of availability of external funding of the research, the study also has tight budgetary controls for the collection of data.

In terms of validity, qualitative analysis with subjective opinions can be prone to the bias of the researcher. According to Smith (2013, ehow.com) "Qualitative research often depends on the individual judgment of the researcher and is heavily dependent on the researcher's interpretation (for example, in the analysis of interview data or case study information)." Due to the researchers experience within the football industry, vigilance with personal bias was maintained during the study.

Reliability of data / information is another potential limitation of the research. The sincerity of responses from interviews can be tainted due to club policies and confidentiality constraints. The researcher encourages confidence in the participant and makes them feel at ease. Sincerity can also be tainted by the public image that clubs want to portray.

The next section of this chapter will explore the sources of data used.

### **3.13 Sources of data:**

This study intends to analyse a combination of financial statements and club announcements for a number of Premier League clubs and use the information posted on these statements and documents to reflect if clubs are adhering to the FFPR. The study will also give a conclusion on what kind of activity is expected from these Premier League clubs in terms of transfers and salaries in the coming seasons. It will seek to find the club(s) that are best prepared for the FFPRs and will look to analyse if the business models of these clubs can and should be a benchmark to follow. In May 2014, UEFA announced what clubs have failed the break-even test. They also released the punishment associated with it.

The use of these financial statements will provide data on the clubs accounts and this data will be used to generate the break-even test analysis. This data will also illustrate which of the Premier League clubs are currently best prepared for the FFPR and will be a guideline towards finding the “perfect model”.

The next chapter will focus on the data findings and will provide and analysis of the data.

## **Chapter 4: Data Findings and Analysis**

### **4.1 Introduction**

This section of the study provides details of the gathered research data that was conducted using a qualitative research method as already outlined in the research methodology section. The data is presented from the results of the interviews carried out by the researcher amongst key FFP experts and Premier League club officials.

### **4.2 In-depth interviews**

As previously outlined, the researcher conducted four insightful interviews in total, two interviews were with two FFP experts, Daniel Geey and Ed Thompson, and two interviews were with Premier League club representatives, both who requested for their name and club to remain confidential. All four interviews were conducted via recorded Skype conference calls, mainly due to the travel expenses involved in arranging face to face meetings.

Before conducting the questions, the researcher gave a brief introduction about himself, the research project and any concerns on behalf of the interviewees that needed to be addressed. The researcher also provided each interviewee with confidentiality and consent forms which were emailed to each interviewee in advance of the interview. As stated above, two of the interviewees requested that their name and club remain unnamed and confidential and as such their details have been purposely omitted from the data. The results of the interviews are presented as follows. The interviews have been broken down into two sections. The first section will analyse the interviews conducted with the financial experts and the second section will analyse the interviews conducted with the Premier League representatives.

#### 4.2.1 Interview Questions and Answers – FFP Experts

##### ❶ **Does the scale of financial instability in European club football justify the FFP's introduction?**

The respondents were both in absolute agreement that the introduction of the FFPR's is justified. Both respondents stressed how the decision to introduce the FFPRs was a unanimous decision in which all clubs had voted to introduce. While both interviewees referred to the annual UEFA benchmarking report, the first interviewee, Ed Thompson, highlighted that he strongly believed that the FFPRs are, in general, helping to reduce the level of debt across European football. Ed also stressed that the FFPRs are not just about passing the break even test but the fact that there are harsh penalties for clubs that fall behind on their tax and payments due to other clubs. He progressed to highlight that when the rules were introduced, there was a general consensus that some clubs were achieving success despite falling behind on tax payments and payment due to other clubs.

The second interviewee, Daniel Geey, also referred to the annual benchmarking report and focused on how the general level of football clubs in Europe stood at circa 2 billion Euros before the introduction of the FFPRs. Now this figure has reduced to circa 1.3 billion Euros and believes that this trend will continue to follow in this direction. Daniel also believed, the introduction of the FFPRs and in particular, the break even test, have led clubs to be more rational in their spending over the previous two seasons as clubs are now focused on achieving long term health and sustainability, a concept that he believed is relatively straight forward.

• **To what extent will clubs need to change their strategy?**

Daniel's belief was that clubs had to change their strategies two to three years ago due to the three year analysis that the break even test incorporates. Therefore clubs have had to change their strategies before the 11/12 and 12/13 seasons as they aim to continually adhere to the break even requirements. This being said, he also believed that clubs would need to continually change their strategy season after season as acceptable loss amounts will continue to decrease and clubs strategies will need to change to cope with that. He also noted that while the results of those who failed the FFPR in 2014 were made public, the amount that they failed the test by is not. Therefore, he believes some clubs may be happy to fail the break even test and accept hefty fines and squad reductions, so long as they are able to remain in European competitions, a strategy which Manchester City could be using.

Ed focused more on specific clubs like Manchester City and Paris Saint Germain (PSG). His belief was that clubs that relied heavily on direct investment from its rich owners now had to change their strategy to focus on generating income by alternative methods. He believed that clubs strategies will now be aimed at generating income through sponsorship and commercial deals in order to fund its spending. He further highlighted the clear reduction in spending by Manchester City on transfer during the 12/13 season and believed that progress on the pitch suffered because of the FFPRs. He speculated that if Manchester City did not reduce their spending during this season, they may have been able to win the Premier League rather than coming runner up.

❶ **What are the barriers to its effective implementation and how might they be overcome?**

As the first period of sanctions have been handed out (May 2014), in general it seems that the implementation of the FFPRs have been very effective as only one of the twenty Premier League teams failed the FFPRs break even test – Manchester City. The first interviewee, Ed Thompson, believed that some of the rules in Annex XI of the FFPRs are complicated and potentially hard to understand. His understanding of the reason that Manchester City failed the FFPRs break even test was down to a misunderstanding of this Annex.

❷ **If it is successfully implemented what might be the unintended consequences?**

It is UEFA's belief that the FFPRs will not generate a situation where by the top clubs will always stay at the top and the less well-off clubs could never join the top rank of clubs. The view shared by both Daniel and Ed is that this is very questionable despite the fact that UEFA have always maintained that they want to help clubs get over the line rather than punish clubs for overspending. Both interviewees agreed that in principle, this situation could be the biggest unintended consequence of all.

❸ **If it is not implemented successfully what might be the consequences?**

We have seen that the first period of sanctions has been completed in May 2014. During this period only one of the twenty Premier League clubs was fined for failing to pass the break even requirements – Manchester City. Therefore, both interviewees were in agreement that the introduction of the FFPRs has so far been successfully implemented. However, Ed raised an issue that not all managers are in full agreement that the fines for failing to pass the test are fair. Ed raised matters regarding the validity of fine issued to Manchester City. They

overspent but are still able to compete in the Champions League, which could be argued as a fairly minor punishment.

Both interviewees were in full agreement that the introduction of the rules which are aimed at preventing overdue payables seem to be working very well and that very few clubs would want to see these withdrawn.

• **Will clubs be able to continue pure related party transactions (E.G. sponsorship deals) without breaching FFP rules? How can this be judged / punished?**

Both interviewees agreed that this is a rather contentious issue which to date has not been clarified to the public in great detail. Clubs have been made aware of the requirements. UEFA ruled that the PSG Qatar Sports Investments (QSI) deal is a related party transaction, however the PSG accountants and auditors didn't. This just shows how contentious an issue this is, and how there is a lot of scepticism surrounding this ruling.

Both interviewees did however believe that clubs like PSG will start to follow Manchester City's approach and will start writing a number of commercial deals with other state-owned companies or state-controlled companies. Ed Thompson believed that it is clearly hard to tackle related party transactions and the state-owned clubs have a clear advantage over wealthy oligarchs who would have fewer funding vehicles available.

• **Will clubs be able to continue mixed related party transactions (E.G. naming rights)? How can the fair value be judged and monitored?**

Both interviewees were in agreement that mixed related party transactions were in the similar category as pure related party transactions, in the sense that there are still a lot of unanswered questions for the general public. Ed Thompson believed that while Manchester City's naming rights deal was complicated, they may have set a pattern for

future deals from owners looking to work around the FFPRs. This being said, there are very few clubs that fall into the Manchester City model and therefore this could be a situation that will remain sceptical.

• **How are clubs transactions and costs measured if they deem them as outside club accounts?**

Both interviewees were in full agreement that clubs are required to include all relevant transactions in their FFP returns. Both interviewees referred to the FFP Toolkit which explains how income and expenditure must be treated in the FFP return.

• **Do you think the FFPR's will benefit clubs in the long term?**

Both interviewees believed that in terms of financial stability in football, then yes the FFPRs will benefit football clubs in the long term – a belief that UEFA strongly maintain. Ed Thompson referred to the excellent overdue payable rules which have helped reduce the level of debt in football clubs since 2011. Both interviewees however had doubt regarding the competitiveness of all clubs, and have an element of doubt that the ossification factor may exist. They believe that the huge Champions League money will continue to be the separating factor and this will only help large clubs remain at the top while making smaller clubs unable to compete with them in the short to medium term.

Daniel Geey was in full belief that the introduction of the FFPRs will completely eliminate clubs from racking up massive, unsustainable debts and with that free falling from the top league into the lower leagues, just as clubs like Leeds United and Portsmouth FC have done prior to the FFPRs introduction.

⊕ **Do you think the FFPR's will affect Premier League clubs more than clubs in the rest of Europe and why / why not?**

It was Daniel's belief that the rules would affect all leagues and clubs equally. He believed that La Liga teams would be impacted in the exact same way as Premier League teams.

Ed differed in his opinion. Ed believed that the opposite is true and that other clubs in different leagues will be affected by the FFPRs more than the Premier League. Ed went on to highlight the huge commercial television deal in the Premier League which started in 2013/14 season and the amount of money each Premier League clubs makes from that deal should mean that they have little or no reason to fail the Break Even test. Added to that increased Champions League deal from 2015 for the top European clubs means they should never really be worried about the FFP rules. He did highlight that a club that is regularly in the Champions League and then fails to qualify for a number of years could see a huge reduction in their television deal and may face some issues in managing their finances accordingly. However Ed also speculated that few people would be betting on television revenue starting to shrink in the near future.

⊕ **Do you think the introduction of the FFPR's will allow the large clubs to grow bigger while growth in the smaller clubs will slow or diminish entirely?**

Both interviewees raised doubt over the ossification issue. Both stressed that while UEFA believe that the ossification factor will not develop, many financial experts believe that realistically the ossification issue will develop and large clubs will continue to grow steadily and pull further and further away from smaller clubs. They believed that in terms of sporting success, large clubs will continue to compete for the same trophies and smaller clubs will be unable to close the gap and develop into a major club capable of consistently challenging for the same trophies.

• **Do you think the introduction of the FFPR's will prevent as many multi-billionaire investors from investing in football clubs in the future?**

Daniel's response was undefined and believed that the introduction of the FFPRs will both attract and repel large multi-millionaire investors. He quoted John Henry, the current Liverpool owner, as a benchmark for those who were attracted by the FFPRs. John Henry realised that as clubs could only spend a certain amount of money to adhere to rules, and he felt that clubs would need to be cleverer with their money and therefore this would increase competition and help Liverpool to develop.

However, both Daniel and Ed also could see that the FFPRs would repel billionaire owners that wanted to go on large spending sprees from investing. They both believed that investments like Chelsea and Manchester City will not be repeated in the foreseeable future.

• **Will the break even analysis test taken over a 3 year period slow or prevent the growth of a club? Other industries and companies may have a 20 year plan and will not become profitable within the first 8 years. Is this fair to expect football clubs to operate within this 3 year break even timeframe?**

Daniel believed that this is something that is undefined and could be a fair argument if it was challenged, however he believed this was more of a regulatory restriction than a business plan argument. While he believed this may be challenged, he did highlight that the FFPRs were not something that were unilaterally imposed, they are regulations that were collectively agreed by football clubs and as such clubs that wished to challenge these regulations now should not have agreed to them in the first place.

#### 4.2.2 Interview Questions and Answers – Club Representatives

❶ **Does the scale of financial instability in European club football justify the FFP's introduction?**

Both interviewees believed that the FFP's introduction is absolutely justified and finances in football clubs needed more regulation. The first interviewee highlighted the extraordinary levels of debt in football clubs as the main reason while the second interviewee highlighted a number of clubs that had undergone financial mismanagement – Leeds United FC, Malaga, Lazio and Borussia Dortmund to name a few.

❷ **To what extent will clubs need to change their strategy?**

The first interviewee focused on the change in strategy that clubs with large wealthy owners have and will need to adopt. This interviewee also mentioned how these clubs would need to change their strategy in an attempt to generate their funding through sponsorship and commercial deals as opposed to relying on investment from their wealthy owners. This interviewee also raised interest in the transfer dealings of clubs, mentioning how a trend of selling to buy will be incorporated at most clubs.

The second interviewee focused more on clubs change of attitudes toward more responsible spending, both short and long term. This interviewee highlighted how wealthy clubs should eventually be prevented from gaining an unfair competitive advantage by owners funding of large scale player purchases compared to more financially responsible clubs.

❶ **What are the barriers to its effective implementation and how might they be overcome?**

Both interviewees believed that potential barriers to the FFPRs effective implementation may arise if clubs challenge the FFPRs. In other words, they may challenge the rules under European competition law deeming the FFPRs as a barrier to entry in top level football. The second interviewee pursued this further by stating that this will only be overcome if UEFA ensure that the FFP laws are resolute enough to withstand inevitable challenges with the EU and Court of Arbitration for Sport.

❷ **If it is successfully implemented what might be the unintended consequences?**

Both interviewees raised concerns of ossification issues. The first interviewee believed that the main threat to the FFPRs is that smaller clubs will be unable to grow at the same level as larger clubs and a big gap will exist between them. The second interviewee believed that club licensing may become an issue for an over achieving “smaller club”. This interviewee highlighted Aston Villa FC as a prime example, stating that should they have a good season and qualify for a European position, they may not have attained their European licence and this will prevent them from entering into the European competition the following season. As a result, they will miss out on the extra revenues European football would provide them with.

❸ **If it is not implemented successfully what might be the consequences?**

We have seen that the first period of sanctions for the FFPR were accepted without any challenges in May 2014, therefore both interviewees are in agreement that the FFPRs have so far been introduced effectively, however both interviewees expressed worries that if the FFPRs had been challenged and sanctions unaccepted, a loss of credibility may have existed

for UEFA. This may also signal that large clubs power would be seen as greater than the international governing bodies - UEFA and FIFA.

• **Will clubs be able to continue pure related party transactions (E.G. sponsorship deals) without breaching FFP rules? How can this be judged / punished?**

Both interviewees highlighted issues regarding the sponsorship deals of football clubs. However the second interviewee's response was more prudent stating that sponsorship deals will now be subject to stringent commercial evaluations by UEFA. This interviewee also cited that UEFA have market tested all sponsorship deals to determine fair value and if the sponsorship deal is found to be unfair or merely an effort by a wealthy clubs owner to inject money into the club through a related third party (Etihad and Manchester City) UEFA will revise the calculation of the break even result to take this into account. While both interviewees spoke about Manchester City's Etihad deal, it is worth noting that there are not many Premier League clubs run in the same manner as Manchester City and they need to source their commercial deals through external parties.

• **Will clubs be able to continue mixed related party transactions (E.G. naming rights)? How can the fair value be judged and monitored?**

Both interviewees were in the same understanding that UEFA would monitor and fine clubs accordingly should mixed related party transactions be seen as unfair. Both believed that UEFA would follow the same principles as those mentioned for pure related party transactions.

⊕ **How are clubs transactions and costs measured if they deem them as outside club accounts?**

Both interviewees understood that all transactions should be recorded on the FFP report and it would then be deemed as an outside transaction by UEFA. If clubs were seen to exclude any valid transactions, they would be punished accordingly.

⊕ **Do you think the FFPR's will benefit clubs in the long term?**

Both interviewees were in absolute agreement that the FFPRs will absolutely benefit clubs in the long term. They both agreed that rules surrounding overdue payables had greatly benefitted clubs to date and this would only continue to improve in the coming years. As a result both interviewees believed that all clubs will become more sustainable as a result of the FFPRs and the health of football finances will continue to improve in the future.

⊕ **Do you think the FFPR's will affect Premier League clubs more than clubs in the rest of Europe and why / why not?**

The first interviewee believed that the FFPRs will impact all clubs equally from a regulation point of view, however due to the large television and commercial deals that Premier League clubs have, they should, in theory, be able to manage the requirements in a more efficient way. The second interviewee was in agreement with this and quoted the first set of financial results in May 2014 as a benchmark, stating that only one of twenty Premier League clubs failed to pass the break even test.

• **Do you think the introduction of the FFPR's will allow the large clubs to grow bigger while growth in the smaller clubs will slow or diminish entirely?**

The first interviewee highlighted their belief that over a number of years, the FFPRs will help smaller clubs to run smoother financially allowing them to make steady growth and with that become more competitive with the “big clubs”.

The second interviewee's opinion differed entirely and believed that this trend has already occurred. This interviewee quoted the following stats: Only three different clubs have won the English, Italian and Spanish leagues respectively over the last ten seasons and only clubs from five different countries have won or been in the final of the Champions League in the last twenty years. Their belief is that the FFP encourages clubs to act more responsibly but it will not change the concentration of football playing talent.

• **Do you think the introduction of the FFPR's will prevent as many multi-billionaire investors from investing in football clubs in the future as have in the past?**

Both interviewees were adamant that the introduction of the FFPR's will not prevent multi-billionaires from investing in football clubs. They did however believe that owners will now be more selective in choosing which clubs they invest into. The first interviewee highlighted that while FFPRs exist, this is overrun by the attraction of the television deals, sponsorship and merchandise sales that clubs continue to make.

The second interviewee referenced a number of clubs that will still be an attractive proposition to acquire. However, this interviewee also stated that we are less likely to see multi-millionaire investors investing in smaller clubs and that they would look to invest into already successful clubs.

- **Will the break even analysis test taken over a 3 year period slow or prevent the growth of a club? Other industries and companies may have a 20 year plan and will not become profitable within the first 8 years. Is this fair to expect football clubs to operate within this 3 year break even timeframe?**

Both interviewees were in agreement that it is fair to expect football clubs to operate within these three year periods. Ultimately, both interviewees highlighted that it was indeed the clubs that agreed to operate within these conditions and it was not something that was forced upon them. The second interviewee progressed further to state that growth in clubs may slow slightly as a result of the three year period however state that football clubs are not subject to the same market forces as other industries. For example most private companies cannot rely on an injection of cash from an owner to keep the business going indefinitely. This interviewee again highlighted that the break even analysis aims to encourage clubs to aim for more balanced, longer term sustainable growth rather than aiming for quick fixes such as large scale player purchases after one bad season.

The next chapter of this research project will generate conclusions based on the primary data and will seek to produce recommendations based on this data.

## Chapter 5: Conclusions and Recommendations

### 5.1 Conclusions

The purpose for conducting this research was to analyse the effects the FFPRs will have on Premier League clubs in the future. To be more specific the study was aimed at investigating the ossification issue that may arise in football, the future of wealthy billionaire investors, and the “fairness” of the FFPRs.

From analysing the collated data (i.e. the in depth interviews amongst FFP experts and Premier League club officials), the researcher concludes that Premier League officials perceptions are based on their own experiences, however most of their perceptions are formulated as a result of media spotlight and interpretation. It is clear from this data, that in order to gain an absolute perception of the current effects the FFPRs are having, the individual involved must have access to private company accounts and confidential information which is not available to the public. The conclusions and recommendations of the study, using specific examples, confirm the original hypotheses below:

**H1:** The introduction of the FFPRs will allow the “large” clubs to grow bigger, while growth in “smaller” clubs will slow or diminish entirely.

**H2:** The introduction of the FFPR’s will prevent as many multi-billionaire investors from investing in football clubs in the future as have in the past.

**H3:** Will the break even analysis test taken over a 3 year period slow or prevent the growth of a club? Other industries and companies may have a 20 year plan and will not become profitable within the first 8 years for example. Is this fair to expect football clubs to operate within this 3 year break even timeframe?

The next section will analyse the Hypotheses separately.

### 5.1.1 Hypothesis 1

**H1:** The introduction of the FFPR's will allow the "large" clubs to grow bigger, while growth in "smaller" clubs will slow or diminish entirely.

From the literature review, it is clear that there is much concern over the future ossification arising in European football, but little has been done to prove this belief. The in depth interviews conducted with the Financial Experts (Daniel Geey and Ed Thompson) provided in depth insight into all aspects of the FFPRs. As both have analysed the FFPRs intensively and have worked with numerous clubs to help provide an interpretation of the rules, the insights they confirmed were extremely pivotal in generating the conclusions. While the literature review provided an in depth understanding of the major factors of the FFPRs, it did not pursue the future effects that these regulations will have on future performance. Both of the FFP experts were in agreement that the ossification issue is one of the major negatives of the FFPRs.

The responses from the Premier League club officials differed slightly. Each response focused on their micro environment and was specific to their club. It did not focus on the overall macro environment. One club official believed that the FFPRs have helped level the playing field and this will allow smaller clubs to grow and a stable rate which in the long term will allow them to compete with the large clubs. The other club official, believed that this ossification in football already existed, and that the FFPRs prevent smaller clubs from spending sprees that will allow them to compete with the larger teams on a consistent basis.

Despite UEFA emphasising that its FFP measures are aimed at protecting and bringing greater financial stability to European football, the primary research gained proves that large clubs will continue to grow bigger and the ossification in football will occur. The researcher is in full agreement with the financial experts that ossification will occur in football in the coming years. The break even analysis will lead clubs to finding new or improved levels of

income. The large clubs, who are already in a commercially powerful position, will attract large multi-million sponsorship and commercial deals. It is the researcher's belief that the commercial deals these "large" clubs agree, will be on a different level to those "smaller" clubs. This will allow larger clubs to pull further away from the smaller clubs and solidify themselves at the top of European football competitions.

### 5.1.2 Hypothesis 2

**H2:** The introduction of the FFPR's will prevent as many multi-billionaire investors from investing in football clubs in the future as they have in the past.

By using the primary data gained from the in depth interviews, the researcher was able to gain a clear outcome of the perceived level of future investment of multi-billionaires. The literature review highlighted a number of clubs that have wealthy owners that have invested large sums of cash which has improved the clubs ability to compete for major trophies (Chelsea and Manchester City). The responses received from the in depth interviews showed a perceived outcome that multi-billionaires will not be put off investing in football clubs as a result of the FFPRs. As Daniel Geey outlined in his interview, John Henry was only willing to acquire Liverpool once the FFPRs were introduced. The researcher therefore believes that multi-billionaire investors will not be put off investing in clubs. Instead, they will be more selective when choosing which club they do invest in. The regulations included in the FFPRs clearly do not allow instant cash investment in the same way that Manchester City and Chelsea owners previously did. These two owners are an exception as there are many other wealthy owners invested in football clubs that have helped grow the club year after year with more stable investment. Clubs who are being managed in a sound financial way, that are investing in the training of players and infrastructures will now become a much more attractive proposition for investors. As a whole, European and Premier League football will now operate with more financial sanity and therefore will attract more wealthy investors. Therefore, this disagrees with the above hypothesis and in fact proves that the introduction of the FFPRs will not deter multi-billionaire investors from investing into football clubs in the future.

### 5.1.3 Hypothesis 3

**H3:** Will the break even analysis test taken over a 3 year period slow or prevent the growth of a club? Other industries and companies may have a 20 year plan and will not become profitable within the first 8 years for example. Is this fair to expect football clubs to operate within this 3 year break even timeframe?

The literature review highlighted a number of aspects surrounding the break even analysis which clubs must adhere to over a three year period. This review outlines the deviations that clubs must reach in order to pass the break even test. The literature review has also highlighted the fines that have been imposed on the first period of this break even test.

Following on from the in depth interviews, there is one absolute agreement that has arisen – the FFPRs were agreed by clubs, they were not enforced. Therefore, this proves the above hypothesis and that it is fair to expect these clubs to operate with this three year break even time frame. Regardless of whether this rule is challenged by clubs in a Court of Arbitration, all clubs were in complete agreement to introduce these rules. If a club were to challenge this timeframe, they would have no case as ultimately, it was something that they had agreed to work under.

The next section will seek to formulate recommendations for the future.

## 5.2 Recommendations

The research study has produced evidence which outlines the effects that the FFPRs are having on Premier League clubs. It has highlighted some deficiencies in the regulations which will now create an ossification in football, meaning larger clubs will continue to grow and remain unchallenged by smaller clubs. The research has also indicated how the introduction of FFPRs will not prevent further investors, in fact proving that the industry will now become a more attractive proposition for large wealthy investors. It has also categorically proven that the FFPRs cannot be compared to other industries in terms of its business plan / profitability targets.

The primary data received by FFP experts and Premier League clubs officials has highlighted the potential for the commercialisation of Premier League clubs which could ultimately lead the industry to become an increasingly profitable industry. It has also highlighted a model in which clubs should follow in order to reach the top level of football while maintaining a sustainable long term financial future.

The recommendations for success in the football industry as a result of the FFPRs are as follows:

### **5.2.1 Commercial deals as a source of income:**

Based on the primary research that was received, the researcher believes that the introduction of the FFPRs will mean that the Premier League and Europe's top club competitions will now focus on major record breaking commercial deals and sponsorship deals as a major source of club income. If clubs can agree major deals, this will give them the extra source of income needed to cover the cost of hyper-inflating transfer fees. Television revenue in the Premier League is at an all-time high and this has allowed smaller clubs like Hull City, Crystal Palace to benefit in a commercial way they would never have been able to in the past. Major clubs like Manchester United, Manchester City and Chelsea, have also used this television revenue to become some of the biggest and wealthiest football clubs in the world. This platform has placed them as prime sponsorship targets. The researcher believes that there will be a trend of record breaking commercial and sponsorship deals agreed by clubs in the coming years. In July 2014, Manchester United announced a new record breaking kit deal with Adidas worth approximately £750million pounds over 10 years (£75million per season). This deal more than doubles the previous record between Real Madrid and Adidas which was worth approximately £31million per season (Maidment, N, 2014).

As such, these commercial deals will move the football industry further towards a profitable business industry as opposed to the leisure industry it once was. Premier League clubs set a new revenue record during 2012/2013 season of approximately £2.525 billion pounds (Jones, D, 2014). This figure shows the overwhelming amount of revenue Premier League clubs are generating. By adhering to the FFPRs and keeping their spending at sustainable levels, there is no reason why the Premier League and the clubs involved, cannot continue to grow and become one of the most profitable industries in the world.

### 5.2.2 Model for progression:

“FFP will encourage competition on a more effective and efficient basis. A policy which encourages clubs to invest in youth academies, community projects, stadia and infrastructure will enable clubs to generate sustainable income in future which will mean they are better placed to compete on the pitch” (Chaplin, M. 2014).

The above statement was released in a UEFA press conference and outlines how a club can become successful with the FFPRs. One club that is a great example of a “small team” that has progressed massively during the last three seasons which the FFPRs have monitored is Southampton FC.

Southampton F.C has progressed from the second tier of English football (The Championship) into the Premier League and last season achieved its highest ever league finish of 8<sup>th</sup>. They did this through a policy which invests heavily in its youth academies and community projects as well as its stadium and infrastructure. During this period, Southampton has invested heavily into its youth system and many of their playing squad has come through their youth systems into the first team. In summer 2014, Southampton has sold a number of these players to different clubs for over £100million. The club is now in its best financial position, operating with low expenses and large Premier League television revenues. It is now in a position to progress further by agreeing multi-million pound sponsorship deals which they can re-invest into the club to secure its long term future.

The model which Southampton FC operates is a “perfect” model for any “small” club that has a long term ambition to succeed in a financially sustainable form.

### 5.3 Future Research

This study is one of the first of its kind and as it is a very contemporary and current topic, new regulations may greatly affect the results of this research and the way which clubs operate. In mid-August 2014, Manchester City signed former Chelsea FC footballer, Frank Lampard on loan from New York City FC – their American sister outfit, a Major League Soccer Franchise in New York which Manchester City purchased in 2013. This deal came as a surprise to many as Manchester City have now acquired a player from one of their biggest league rivals with little or no cost to their FFP report. It is the principle of the deal that sets a dangerous precedent more than the deal itself that has raised eyebrows. This agreement may be a new feature that UEFA will need to investigate to ensure that clubs do not gain an unfair competitive advantage over others. In effect, Manchester City have been able to purchase a club which operates outside of UEFA's control, and with no FFPRs to adhere to, New York City FC can spend in a different manner to avail of top class playing talent. As owners of New York City FC, Manchester City have been able to avail of a very good player with little or no cost. This may be an attempt by Manchester City to work around the FFPRs or to find a loophole in the FFPRs which allows them to reduce the cost of acquiring top class playing talent. As an extremely recent topic, this has not been included in this research and may be an area which needs further investigation. Similar scenarios may occur as clubs attempt to find ways to succeed by working around the FFPRs. This is an area that may warrant further research as time progresses as the FFPRs become more established.

The research completed in this study is based on the first period of the FFPRs. One thing to note is it is impossible to predict how clubs will perform on the field in the future and therefore, how they will operate off the field as a result. This study has sought to find conclusions about how clubs will operate in the future as a result of the FFPRs. The biggest influencing factor in determining the effectiveness or otherwise of the FFPRs is time. This

study was conducted over a short period of time when the FFPRs were a very new and novel concept within the football world and are only being introduced into clubs. As time progresses, more information will be able to be obtained and analysed in relation to how clubs operate and perform under these new rules. Therefore it is recommended that further research is conducted into the impact of the FFPRs when they are further established as a footballing standard in the future. Similar to the above example, there is plenty of room for further research on this topic in the coming years as clubs attempt to find different methods and approaches to maximise their financial performance while adhering to the FFPRs.

The final chapter will reflect on the researchers personal experience throughout this course and research project.

## Chapter 6: Self-Reflection on Learning

### 6.1 Introduction

“It is necessary ... for a man to go away by himself ... to sit on a rock ... and ask, 'Who am I, where have I been, and where am I going?’ - Carl Sandburg

The researcher has found himself in a position of pride. The decision was taken over two years ago to study an MBA. After working in the financial services industry for a number of years, the researcher started to feel unfulfilled and incomplete in their line of work and wanted to enhance his CV and progress his career path. The researcher wanted to find a way to advance his career prospects by further education and the MBA in Dublin Business School provides the opportunity to learn new skills and pursue new ambitions.

A thesis is not just about reporting on the research process, it is also about how the process affects personal and professional learning (Shacklock and Smith, 1998). The dissertation process itself has been a very personal and challenging journey. It required a lot of commitment, hard work and dedication from the researcher. At times, the researcher found the research very interesting and educational. There were other times the researcher found it very difficult to move forward with the research process due to the demands of working in a full time job. But after a period of complete hard work, determination and encouragement from family and friends, the researcher was able to complete the dissertation. The end result and the learning experience was very fulfilling and rewarding and the researcher felt he had accomplished another milestone in his life.

Through the work on the final research paper, the researcher has learned a lot about himself and gained valuable knowledge of how to do stronger research and structured planning. The researcher also felt that his organisation skills increased too. This chapter will discuss the self-reflection of the researcher over the past two years in Dublin Business School.

## 6.2 Researcher Background

Since completion of the Higher Diploma in Business Studies in 2011, the researcher has worked in a large financial services company. The researcher's academic experience together with his professional experience has given him a broad skill set.

The Higher Diploma in Business Studies provided the researcher with analysis into business models and problem solving, general business theory, analysis of corporate organisations, basic IT skills and presentation and team working skills. In the following years of work experience in the financial services industry, the research has strongly enhanced his IT skills by working and testing many different office applications and web applications. The researcher now possesses strong knowledge of the Irish and International financial services industry as well as an understanding of how the financial markets operate. Working in teams during this time, the researcher has certainly developed improved communication skills. The nature of the researcher's work has also provided him with the ability to analyse and interpret data while taking appropriate risks.

The researcher feels that after almost four years working in the financial services industry that a new chapter in their professional career is needed. The researcher wants to experience and face new challenges that get the most out of his abilities and feels that a new industry would create these new challenges.

The researcher knew that eventually he wanted a route away from the financial services industry and that the sports industry might be the right solution as the researcher holds a huge passion for all kinds of sports. If there is a lack of opportunities in Ireland to reach this goal, the researcher will consider options abroad.

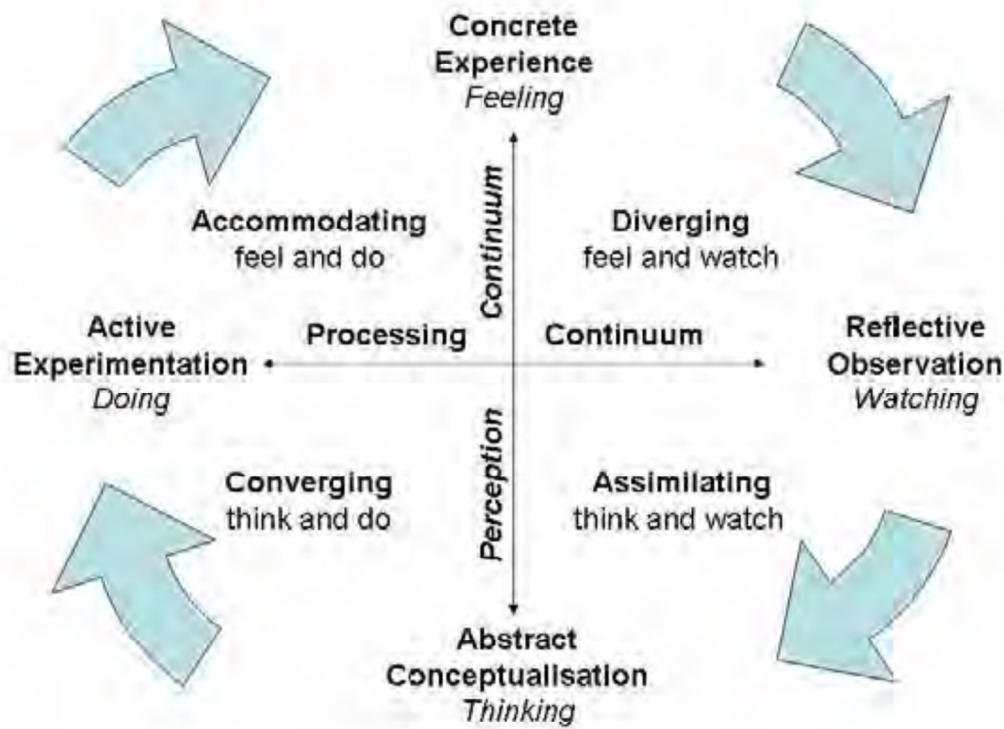
Obtaining an MBA is an important step to doing this. Although the researcher is not expecting the MBA to provide him with all the answers, he does believe that by completing

an MBA this will provide him with a more rounded business knowledge that his work experience to date hasn't. Therefore if he wants to change industry, he will need to obtain a more rounded perspective of the business environment and a cross discipline skill set. Within the MBA this does not just come from the theory itself but also from fellow peers and different cultures and experiences they offer.

When the course first started, the study seemed challenging yet achievable. But it was when the researcher finished the proposal for the dissertation that he started to realise just how much work the dissertation involved.

### 6.3 Reflection on Learning Experience

Knowledge results from the combination of grasping and transforming experience (Kolb 1984:41). Kolb developed a four stage learning cycle: concrete experience, reflective observation, abstract conceptualisation and active experimentation to describe how learning by experience takes place. According to Kolb, immediate and concrete experience should serve as a basis for observation and reflection which then leads to the continuation of the learning cycle.



Kolb's learning cycles.

Kolb's (ELT) model above is based on the Experimental Learning Theory which describes learning as a process whereby knowledge is created through experience grasping and experience transforming approaches. According to Kolb, it is not necessary for individuals to

start the learning cycle in the same mode in a uniform manner. Due to each individual's particular life experiences, the demands of different environment, each individual will develop a preferred way of choosing among the four learning modes.

Concrete experience – those who rely on concrete experience for grasping are open to new experiences, depend on people contact for gathering information, are intuitive and make feeling based judgments. (Barmeyer, 2004; Kolb & Kolb, 2005).

Reflective observation - those who prefer reflective observation watch and observe all sides of an issue in order to understand its meaning and take time to act. (Barmeyer, 2004; Kolb & Kolb, 2005).

Abstract conceptualisation - those who rely on abstract conceptualisation are logical and analytical in their approach to a learning situation and seek theories and generalisations (Auyeung & Sands, 1996).

Active experimentation - those who prefer active experimentation like to try things out, are more willing to take risks and are practical and application oriented (Barmeyer, 2004; Kolb & Kolb, 2005).

After careful examination of the learning styles cycle developed by Kolb, the researcher has identified his current preferred approach of learning as being active experimentation. The researcher prefers taking risks and trying things out rather than first seeking to understand the theories and the meaning of all sides of an issue.

## **6.4 Development of Learning and Performance**

“The more that you read, the more things you will know. The more that you learn the more places you'll go.” - Dr. Seuss, I Can Read With My Eyes Shut.

Improving one's learning and performance throughout life is vitally important, and identifying one's strengths and weaknesses is an essential process. As previously discussed, the MBA course is important for the researcher to address any skill set deficiencies that he may have and identifying the strengths and weaknesses can pinpoint the areas for improvements.

### **6.4.1 Planning and Preparation Skills**

In the beginning of the course, the researcher identified planning and preparation as a skill set that needed improving. In his current line of work, there are set procedures to follow, and there is little planning to be done with these certain tasks. However, the researcher realised in an academic environment, an essential part of the research schedule is planning. Planning and co-ordinating skills are required to deliver the content that is relevant. By developing these planning skills, the researcher could identify issues early and possible courses of action to amend these. Planning skills help aid decision making by helping task completion.

Furthermore, using this dissertation as an example, the researcher has set and clearly defined goals and strategies for each chapter of the dissertation and was able to meet each individual deadline that he set himself. The plan acts like a blueprint to check against and to see if the researcher was following the correct path.

#### 6.4.2 Communication Skills

Working in teams throughout the researcher's professional and academic career has not necessarily meant there is no room for improvement to their communication skills. During the MBA programme the researcher found that during group projects he could have been more proactive and vocal in communicating his opinions with each other students. This being said, the researcher took on the position of team leader in as many group projects as possible.

Empathising with others points of view is another aspect of communications the researcher can work on, as no one person is always correct. Participating during class is another area that the researcher felt he could have improved on.

Furthermore, for the dissertation itself, the researcher realised how important it is to communicate with the dissertation supervisor, friends, fellow students and family. First of all, it was important for the researcher to communicate with the dissertation supervisor on a regular basis to discuss the progress of the research. The regular meetings with the dissertation supervisor helped the researcher to effectively manage each individual deadline. Secondly, an important channel of communication is with fellow students, friends and family. It was very helpful to seek advice and opinions from fellow students when the researcher ran into obstacles during the dissertation process. It was vitally important to communicate with family members to seek their understanding and encouragement over the course of the MBA programme.

Strong communication skills were necessary to ensure interviewees understood the nature of the research and were given ample opportunity to express their views and opinions in a relaxed non-judgemental environment. This was vital in order to achieve the research objectives. This was done by explaining the process and purpose, ensuring confidentiality, posing open ended questions and creating a relaxed atmosphere for interviewees.

### **6.4.3 Self-Awareness Skills**

Early in the MBA course, the researcher thought that one of the problems he first encountered was a lack of self-awareness. The researcher was still uncertain about whether the MBA was a suitable subject for him to pursue. Overtime this doubt dissolved as they learned to fully embrace the course and the positive things finishing the course will bring. Previously the researcher was also quite ambivalent about his future goals and he only knew that he wanted to change his career direction mid-way through the course. In the future, the researcher will focus on what are the goals that will take him to achieve his ambitions and aspirations.

#### 6.4.4 Management Skills

The researcher's career so far has not reached management level in the financial services industry, mainly due to the fact that he has not realised his future goals and objectives. The area of management is a very broad area. An effective manager must possess the ability to influence others. While the researcher has experience in this form of management from sports teams, it is a different scenario in a work environment. Maintaining discipline is another management skill that has been developed through the course and in particular, during the dissertation process by sticking to the deadlines set.

During the MBA programme, the researcher has learned various theories about strategic management through case studies and exams. By the end of each module, the researcher had gained a good knowledge of the following models and disciplines: strategic analysis, strategic planning, the management process, decision making and ethical and cultural differences. All the theories mentioned above have helped the researcher to gain an in depth view of how management skills can be developed and utilised in any modern day business and in the researchers own career.

Furthermore, through the learning experience gained from completing the MBA programme, the researcher was able to employ theoretical management knowledge in their workplace during a project. This mentioned project was approved by senior management and developed further. The researcher is confident that he will be ready for any opportunities that may present themselves in the future.

## 6.5 Scope of future application for learning

The MBA has provided various aspects of learning experience which will be beneficial to the researcher in changing his career path. The learning experience the researcher gained from the MBA was not the only thing, as he also made many friends over the two years of the course.

The programme itself is a personal and spiritual journey for the researcher. The researcher has learned so much about himself and discovered his key attributes and features. The researcher has grown tremendously over the course of the past two years and is more determined than ever to take the next step of his professional and personal life.

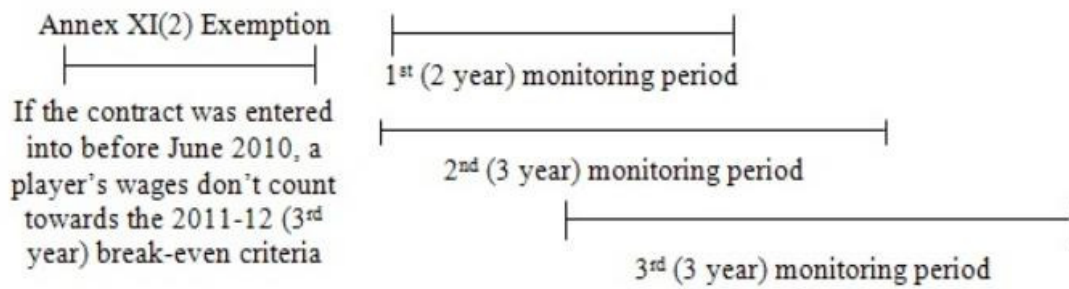
“I learned this, at least, by my experiment: that if one advances confidently in the direction of his dreams, and endeavours to live the life which he has imagined, he will meet with a success unexpected in common hours.” - Henry David Thoreau, *Walden: Or, Life in the Woods*

The researcher has apprehended his personal value and goals in life through the MBA process and is confident that he can start advancing his life in the direction that his dreams desire.

## 7. Appendices:

### 7.1 Appendix 1: Amortisation

	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year	4 <sup>th</sup> Year	5 <sup>th</sup> Year	6 <sup>th</sup> Year
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Transfer Fee (£)</b>	2m	2m	2m	2m	2m	-
<b>Wages (£)</b>	5m	5m	5m	5m	5m	- zero if contract not renewed



(Geey, 2011)

## 7.2 Appendix 2: Acceptable Deviation Levels

Acceptable Deviation Levels						
Monitoring Period	Number of Years	Years Included			Acceptable Deviation (€m)	
		T-2	T-1	T	Equity Investment	Non-Equity Investment
2013-14	2	N/A	2011-12	2012-13	45	5
2014-15	3	2011-12	2012-13	2013-14	45	5
2015-16	3	2012-13	2013-14	2014-15	30	5
2016-17	3	2013-14	2014-15	2015-16	30	5
2017-18	3	2014-15	2015-16	2016-17	30	5
2018-19	3	2015-16	2016-17	2017-18	<30	5

(Geey, 2011)

### 7.3 Appendix 3: Fulham Football Clubs accounts

		2012	2011
	Notes	£	£
<b>Turnover</b>	3	78,652,058	76,405,139
Other operating income		663,767	703,939
		<u>79,315,825</u>	<u>77,109,078</u>
Operating expenses before depreciation, amortisation and impairment	4	(80,277,591)	(74,064,865)
<b>Operating (loss)/profit before depreciation, amortisation and impairment</b>		<b>(961,766)</b>	3,044,213
Depreciation and amortisation	4	(18,670,630)	(11,708,183)
Exceptional Impairment	5	(2,942,309)	-
		<u>(21,612,939)</u>	<u>(11,708,183)</u>
<b>Operating loss after depreciation, amortisation and impairment</b>		<b>(22,574,705)</b>	(8,663,970)
Profit on disposal of players' registrations		4,130,806	13,664,862
Profit on disposal of other assets		-	1,754
<b>(Loss)/profit before interest and taxation</b>		<b>(18,443,899)</b>	<u>5,002,646</u>
Net interest payable	7	(310,648)	(596,226)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(18,754,547)</b>	4,406,420
Taxation of (loss)/profit on ordinary activities	8	-	-
<b>(Loss)/profit for the year</b>		<b>(18,754,547)</b>	<u>4,406,420</u>

(Ed Thompson, 2013)

### 7.4 Appendix 4: List of Clubs that Failed FFP

Football Club Anji – Russia
Bursaspor – Turkey
Galatasaray – Turkey
Levski Sofia – Bulgaria
Manchester City – England
Paris Saint Germain – France
Rubin Kazan – Russia
Trabzonspor – Turkey
Zenit St Petersburg – Russia

(UEFA Disciplinary, 2014)

## 7.5 Appendix 5: Time Allocation

*Below are the time periods for the dissertation process:*

<b>Activity -</b>	<b>Start Date -</b>	<b>Finish Date -</b>
Searching for secondary data	5 May 2014	2 June 2014
Reading secondary data	5 May 2014	2 June 2014
Creating data collection instruments	2 June 2014	23 June 2014
Administrating data collection instruments	2 June 2014	23 June 2014
Analysing primary data	23 June 2014	7 July 2014
Writing the early drafts	7 July 2014	21 July 2014
Analysing comments on drafts by supervisor	7 July 2014	21 July 2014
Revisions of drafts	21 July August 2014	12 August 2014
Printing and binding	12 August 2014	20 August 2014

## 7.6 Appendix 5: Interview Questions:

### 7.6.1 Ed Thompson

- **Does the scale of financial instability in European club football justify the FFP's introduction?**

The rules were approved by the European Club Association so there was clearly a view amongst member clubs that something needed to be done to help clubs help themselves. UEFA tracks a number of measures in their annual benchmarking reports and strongly believe that FFP rules are helping to reduce the general level of debt across European football. It is important to remember that FFP is not just about breaking even and also includes harsh penalties for clubs that fall behind with their tax and payments to other clubs. When the rules were introduced there was a view that some clubs were achieving success despite falling behind on their tax payments and not paying other clubs in a timely manner for transfers.

- **To what extent will clubs need to change their strategy?**

Manchester City and PSG are now unable to use direct injections from their owners to fund their spending. In theory at least, genuine sponsorship/commercial deals need to be generated to fund high spending. We certainly did see Manchester City reduce transfer spending in 2012/13 as a result of the rules – perhaps without FFP Manchester City would have won the title for the last 2 years (rather than 2/3)? However state-owned clubs (which PSG and Manchester City effectively are), will probably have little difficulty in writing commercial deals with state-owned or state-influenced' bodies.

• **What are the barriers to its effective implementation and how might they be overcome?**

The rules are complicated and potentially hard to understand. Manchester City maintains that they failed (in part) due to a misunderstanding over the rules (in respect of Annex XI). They also require a huge amount of resources and effort from UEFA to monitor club finances.

• **If the FFPRs are successfully implemented, what might be the unintended consequences?**

UEFA are mindful of the concept that they term 'ossification'. In a February Press Update on FFP they spend time discussing how the FFP rules will not (in their belief) generate a situation whereby the top clubs will always stay at the top and the less well-off clubs could never join the top rank of clubs. I am not sure that everyone is quite as convinced. UEFA have always maintained that they want to help clubs get over the line (rather than punish clubs for overspending) so perhaps it won't be such a large issue.

• **If the FFPRs are not implemented successfully what might be the consequences?**

FFP has been implemented reasonably successfully. Perhaps the issue for some (Arsene Wenger?) is that the punishments aren't as strict as they would have liked. Manchester City overspent and are still able to compete in the Champions League with what could be argued is a fairly minor punishment. FFP rules to prevent overdue payables seem to be working very well and I suspect few would like them to be withdrawn.

⊕ **Will clubs be able to continue pure related party transactions (EG sponsorship deals) without breaching FFP rules? How can this be judged /punished?**

UEFA have ruled that the PSG QSI (Qatar Sports Investments) deal is a related party transaction (despite the fact that the club accountants/auditors maintained it wasn't). So, UEFA have been clearly unable to act on related party transactions. However, it hasn't been an easy thing for UEFA to do - it's a contentious issue. PSG will need to generate income from other sources - however I would expect them to follow Manchester City's approach and write a number of commercial deals with other state-owned companies or state-controlled companies. It is clearly hard to tackle related party transactions and the state-owned clubs have a clear advantage in this area (over a wealthy oligarch, for example, who would have fewer funding vehicles available).

⊕ **Will clubs be able to continue mixed related party transactions (EG naming rights)? How can the fair value be judged and monitored?**

Manchester City's naming rights deal was fairly complicated (many argue that it was a deliberate attempt to make it hard to assign a 'fair value'). I suspect Manchester City have set the pattern for future deals from owners looking to work around the FFP rules. However very few clubs fall into the PSG/ Manchester City model.

⊕ **How are clubs transactions and costs measured if they deem them as outside accounts?**

Clubs need to include all relevant transactions in their FFP returns. There is a very detailed FFP Toolkit that explains how income and expenditure must be treated in the FFP return.

• **Do you think the FFP's will benefit clubs in the long term?**

UEFA strongly maintain that the rules were introduced to achieve 'sustainability' in European football. The excellent Overdue Payable rules have helped and we have also seen debt levels come down. Perhaps it is too early to tell but we haven't really seen transfer fees and wages come down as much as we might have expected. FFP wasn't specifically introduced to restrict investment or stop wealthy owners from funding their club. The huge Champions League prize money is probably the greatest 'ossification' factor - however that is outside of the FFP rules.

• **Do you think the FFP's will affect Premier League clubs more than clubs in the rest of Europe and why / why not?**

Actually, I think the opposite is true. The huge TV deal in the Premier League that started in 2013/14 means that clubs really have little or no excuse for failing to Break Even. Added to that, the increased Champions League deal from 2015 for the Premier League clubs and the top clubs should never really be worried by the FFP rules. However, if a top club falls out of the Champions League positions and the next TV deal is for a reduced amount then we could see some issues.

However, at the moment, few will be betting on the TV revenue starting to shrink.

### 7.6.2 Daniel Geey:

#### ❶ **Does the scale of financial instability in European club football justify the FFP's introduction?**

Ok. So I think that the most empirical way to look at finances is the UEFA benchmarking report and the latest benchmarking report shows that the year before last (11/12 season) that the first period before FFP came in that clubs debts were in or around over 2 billion euros. The latest benchmarking report shows the impact that the FFPRs have had because those losses have decreased to 1.3 billion euros so you can see almost immediately that a trend has occurred and it will be interesting to see if that trend continues. One of the main impacts that FFP breakeven has had is that clubs are having to be a bit more rational in the way that they are spending their money and want to play in European football and you can see the rules themselves and the objectives of the UEFA FFPR talks about greater rationality of clubs spending and to improve the long term health of European football and clubs to pay their debts in time and the long term sustainability of clubs etc. So all those things I don't think are in anyway shape or form controversial points. In the end, clubs like any other business are trying to live within their means and by spending less than they earn to me and most people, that seems a relatively straight forward concept.

#### ❷ **To what extent will clubs need to change their strategy?**

My view is they have already had to a number of years ago. So any club wanting to play in European competitions because their 11/12 and 12/13 accounts were judged, they have got to adhere to those rules. Clubs have now probably strategically been thinking about their acceptable deviations for almost 3 years now. My view is that it is quite a thing that has been going on for quite a while now.

• **Do you think clubs will have to change it again or will they continue on the same strategy as the previous 2 to 3 years?**

Two things would probably best answer that. First, there is obviously soon going to be narrowing of the acceptable loss amounts so clubs will have to make sure that they fall within those acceptable amounts. The other point worth mentioning, is we are seeing in the last two months that all of the settlement decisions to come out of clubs that have been in breach of the breakeven requirements and what is worth noting there is that no one knows actually what the amount each club was over the acceptable deviation and what the sanctions were resulting from so there is an argument for saying “Well yes, clubs will have to put in place a strategy to adhere to FFP and breakeven FFPRs but actually they may not be expelled from competitions even if they are outside the acceptable limits. They may get less severe sanctions like squad reductions, fines or suspended fines etc.

• **If the FFPRs are successfully implemented, what might be the unintended consequences?**

Depends on what you mean by successfully. Im not sure if they are unintended consequences but the consequences of FFP really is that the biggest clubs are effectively the ones that can benefit the most as they have the biggest revenues to offset the higher expenses so it is not a hard cap, in other words, where everyone can only pay a maximum of X amount for their wages for a particular season. This is a self-sustainability model based on each clubs accounts. The point is really that some are arguing (Daniel Striani, a players’ agent registered in Belgium, the guy that brought the complaint and private damages action against UEFA for the FFP rules) that a draw bridge effectively gets pulled up because the clubs that are in a strong position now will only get stronger because they will have higher revenues and it

doesn't leave any potential for aspirational clubs who want to spend a lot in the short term to then break into that elite group.

⊕ **Will clubs be able to continue pure related party transactions (EG sponsorship deals) without breaching FFP rules? How can this be judged /punished?**

We just don't know, is the answer. It's disappointing that the analysis of club financial control panel with regard to PSG and Manchester City for example, hasn't been made public. So we've got no idea about what club the club financial control panel will deem a RPT. It is difficult to know in the outset, some of these aren't typical related party transactions and quite A-typical but it's anyone's guess unfortunately at the moment because we haven't had that published analysis. It hasn't been clarified publicly but it has been clarified to the clubs in question.

⊕ **Will clubs be able to continue mixed related party transactions (EG naming rights)? How can the fair value be judged and monitored?**

My understanding is that PSG didn't use a naming rights transaction. Their deal with Qatar Transport Authority was a general commercial agreement for certain types of promotional activities, for example for their club to go to Qatar and lots of different things, but we still don't even know what this is but I don't believe it was a mixed related party transaction. Manchester City was the one that had a naming of their stadium. It is the same point as before but you still need to have experts that will have to access different values for the different arrangements that are being done for particular deals.

- **Do you think the FFPR's will benefit clubs in the long term and do you think the FFPR's will affect Premier League clubs more than clubs in the rest of Europe and why / why not?**

I would say in terms of financial stability certainly yes. In terms of sporting success benefit potentially no because it may well be that smaller clubs can't compete with the larger clubs especially over a short or medium term. In terms of the general aim of greater financial self-sustainability, I think it would seem fair to suggest that if clubs have to adhere to strict financial rules then there is less chance of them racking up major debts and big losses as a result. (Basically avoiding another Portsmouth and Leeds United situation)

- **Do you think the introduction of the FFPR's will prevent as many multi-billionaire investors from investing in football clubs in the future?**

Some investors maybe however some investors like John Henry at Liverpool were suggesting that one of the reasons that they actually wanted to buy Liverpool was because of the FFPRs in that they realised that they would only be able to spend a certain amount of money to adhere to the rules and as a result then you would have to be cleverer with how you spend your money. So John Henry was extremely keen for these restrictions to be in place so presumably he wouldn't have to spend billions of pounds to chase dreams just as other clubs have potentially done.

I can also see the opposite perspective where if you've got a billionaire owner that will guarantee the funds for a big spending spree, why shouldn't that be permitted and that is one of the reasons that Striani is arguing that the FFPRs are not competitive.

- **Will the break even analysis test taken over a 3 year period slow or prevent the growth of a club? Other industries and companies may have a 20 year plan and will not become profitable within the first 8 years. Is this fair to expect football clubs to operate within this 3 year break even timeframe?**

It's a fair question. I think that it is less a business plan argument and more of a regulatory restriction issue. So if for example if UEFA were saying "well you just need to show me your business plan for the next period of years and show me how you are going to get profitable, clubs might then just blow as much money as they could for the first five years and not be under any obligations to restrict how they are spending their money.

One thing to remember is that all clubs agreed to these regulations. It isn't something that has been imposed on them, the clubs have agreed to be bound to these rules so now they can't be coming out and saying that they are too strict. In a way, it's by the by really as these are the clubs that agreed to restrict themselves.

It isn't something that has been unilaterally imposed: it is something that has been collectively agreed.

### 7.6.3 Confidential Club Representative 1

- **Does the scale of financial instability in European club football justify the FFP's introduction?**

FFP has been introduced because the so called big clubs are spending ridiculous amounts each transfer window and as a result of this lead to huge levels of debt across European football. FFP encourages clubs to basically break even and be more efficient in terms of paying other clubs etc.

- **To what extent will clubs need to change their strategy?**

These clubs will not be able to use their owner's wealth to fund their spending. The introduction of FFP means that clubs need to generate their funding through their sponsorship deals and TV commercial deals etc. Clubs, in theory, will not be able to spend as much as they did or they will need to offload players to fund other transfer opportunities to break even.

- **What are the barriers to its effective implementation and how might they be overcome?**

Certain clubs may find loopholes in the rules or the rules might not be so clear to all involved. This may lead to confusion and legal issues. Other barriers may include club resilience or potential appeals against sanctions that are issued by UEFA.

- **If it is successfully implemented what might be the unintended consequences?**

I am not sure if this is an unintended consequence but I believe that smaller clubs may not be able to grow at the same level as bigger clubs under the new rules. Therefore, there is a potential that the FFPRs will prevent smaller clubs from large spending sprees which could result in the gap between the top teams and the remainder of teams growing bigger.

⊕ **If it is not implemented successfully what might be the consequences?**

So far the first period of FFP sanctions has proceeded without any major challenges or problems: as such it has been implemented successfully so far. However if the rules are challenged or a club appealed their decision and was overturned, this may result in the credibility of the rules collapsing.

⊕ **Will clubs be able to continue pure related party transactions (EG sponsorship deals) without breaching FFP rules? How can this be judged / punished?**

No. I believe that UEFA have a panel in place that measures the fair value of each sponsorship deal (pure related party transaction) and have the power to reduce the sponsorship deal if it is found to be unfair / above fair value.

⊕ **Will clubs be able to continue mixed related party transactions (E.G. naming rights)? How can the fair value be judged and monitored?**

Similar to my previous answer, I believe that UEFA have the power to fine or reduce the deals (mixed related party transactions) if they are found to have a value that is way above fair value.

⊕ **How are clubs transactions and costs measured if they deem them as outside club accounts?**

I am unaware that clubs are not including their costs on their FFP reports. My understanding is that all costs should and are included. However, if a club is found guilty of this, they should be subject to a fine or sanction.

• **Do you think the FFPR's will benefit clubs in the long term?**

Yes, absolutely. Debt levels have already come down in the majority of clubs and this will continue to do so which can only benefit European football in long run.

• **Do you think the FFPR's will affect Premier League clubs more than clubs in the rest of Europe and why / why not?**

It will be similar for all of the top leagues due to the money paid for TV deals however, in particular the Premier League and Champions League. So if teams don't qualify for Champions League, this could hit them hard. Premier League TV deals are at a record high at the moment, therefore Premier League team should be able to use this to their advantage in passing the break even test.

• **Do you think the introduction of the FFPR's will allow the large clubs to grow bigger while growth in the smaller clubs will slow or diminish entirely?**

Surely the opposite is true and one of the main reasons FFP was introduced was that the smaller clubs could be more competitive. I mentioned that the potential consequences may be that smaller teams struggle to keep up with bigger clubs but it is my belief that the smaller clubs will now be better run financially and that will give them the ability to start competing on a more consistent basis.

• **Do you think the introduction of the FFPR's will prevent as many multi-billionaire investors from investing in football clubs in the future?**

I believe that we probably won't see another Roman Abramovich in football again, however with clubs being more financially stable and the large television deals, I do not think this will prevent multi-millionaires from investing. If anything, this will attract them more than before.

- **Will the break even analysis test taken over a 3 year period slow or prevent the growth of a club? Other industries and companies may have a 20 year plan and will not become profitable within the first 8 years. Is this fair to expect football clubs to operate within this 3 year break even timeframe?**

Yes I do think it is fair for all clubs to work in this scenario. After all, we all (all Premier League clubs) agreed to these rules and regulations. Therefore, no club should suddenly appeal the rules just because they were unable to achieve the deviations required.

#### 7.6.4 Confidential Club Representative 2

❶ **Does the scale of financial instability in European club football justify the FFP's introduction?**

Yes. There are a number of high profile examples of clubs who have overstretched themselves financially and undergone huge upheaval due to financial mismanagement in recent years across almost all the major European Leagues. Borussia Dortmund, Leeds United, Malaga, Valencia, Lazio and Fiorentina all being good examples.

❷ **To what extent will clubs need to change their strategy?**

The main aim of FFP is to encourage a more responsible attitude to both short and long term spending by clubs. For example FFP should eventually prevent loss making clubs using large cash transfers from wealthy owners to fund large scale player purchases and earning an unfair competitive advantage over more financially responsible rivals. Clubs will now be expected to plan for the longer term when making plans for player purchases and infrastructure development.

❸ **What are the barriers to its effective implementation and how might they be overcome?**

The barriers are the economic power and will to challenge rulings of the top European clubs. Clubs could elect to challenge FFP under the grounds of European competition law as FFP could theoretically be deemed to be creating a barrier to entry in top level football. This can only be overcome by UEFA ensuring that the FFP laws are resolute enough to withstand inevitable challenges within the EU and the Court of Arbitration for Sport.

❶ **If it is successfully implemented what might be the unintended consequences?**

The unintended consequences might be the prevention of a mid-table club who have a good season of taking their place in European competition. For example if Aston Villa were to qualify for Europe their combined losses over the last 3 years might prevent them from competing. The same applies to Valencia. In theory competing in Europe should allow clubs to generate extra revenue but this will not be possible if clubs with high losses are prevented from competing in European competition thus damaging their break even position further.

❷ **If it is not implemented successfully what might be the consequences?**

A loss of credibility for UEFA and a further growth in the power of large football clubs versus national and international governing bodies.

❸ **Will clubs be able to continue pure related party transactions (EG sponsorship deals) without breaching FFP rules? How can this be judged / punished?**

Yes. Sponsorship deals will now be subject to stringent commercial evaluations by UEFA. UEFA have market tested all sponsorship deals to determine fair value. If the sponsorship deal is found to be unfair or merely an effort by a club owner to inject money in the club through a related third party (Etihad and Manchester City) UEFA will revise the calculation of the break even result to take this into account. This could then lead to the club not meeting the FFP regulations. UEFA has a range of punishments ranging from warnings, fines, squad restrictions and competition bans.

❹ **Will clubs be able to continue mixed related party transactions (EG naming rights)? How can the fair value be judged and monitored?**

Yes. As far as I understand the scenario is the same as for normal sponsorship transactions.

⊕ **How are clubs transactions and costs measured if they deem them as outside club accounts?**

Transfers that were undertaken prior to 2011 are amortised to take into account the length of contract thus putting them under scrutiny under FFP.

⊕ **Do you think the FFPR's will benefit clubs in the long term?**

If the implementation is successful it should benefit clubs and eventually lead to more financially responsible clubs being more successful.

⊕ **Do you think the FFPR's will affect Premier League clubs more than clubs in the rest of Europe and why / why not?**

No. Most PL clubs while operating with losses are still within the FFP framework. Other high profile clubs such as Malaga have been excluded from European competition whereas PL clubs carrying debt such as Everton have still been within the FFP limits and been allowed into UEFA competitions, Other PL clubs such as Manchester City have incurred sanction but are likely to be less in danger over the coming years as the club has now established itself at the top level.

⊕ **Do you think the introduction of the FFPR's will allow the large clubs to grow bigger while growth in the smaller clubs will slow or diminish entirely?**

This has already happened in football. Only 3 different clubs have won the English, Italian and Spanish leagues respectively over the past ten seasons and only clubs from 5 different countries have won or been in the final of the Champions League in the last 20 years (and that includes Ajax in 1995 and 1996). All FFP does is encourage clubs to act more responsibly it will not change the concentration of playing talent

• **Do you think the introduction of the FFPR's will prevent as many multi-billionaire investors from investing in football clubs in the future?**

It will definitely make multi-billionaire investors more selective about what clubs to invest in. For example a club like PSG would remain an attractive proposition due to the relatively uncompetitive nature of the French Ligue, large potential for growth in French domestic football, especially in Paris and the ease with which a club can qualify for the Champions League in comparison with the Premier League. On the other hand a club like Manchester City would not be such an attractive proposition due to the highly competitive nature of the league the fact they don't own their own stadium, the distance between City and the CL clubs prior to the takeover and the financial state of City prior to the takeover. In short investors are more likely to be attracted to well run, financially stable clubs rather than clubs with large debts who might happen to be open to "quick sales".

• **Will the break even analysis test taken over a 3 year period slow or prevent the growth of a club?**

Other industries and companies may have a 20 year plan and will not become profitable within the first 8 years. Is this fair to expect football clubs to operate within this 3 year break even timeframe? Yes. It will definitely slow the growth of clubs but this is fair. Money is earned four ways in football: match day revenue, commercial revenue, television money and prize money. A clubs ability to generate any of these revenue streams is directly related to their success on the pitch. If they have achieved their success on the pitch through gaining an unfair financial advantage then other more "responsible" clubs are damaged both on and off the pitch. Football is not subject to the same market forces as other industries. For example most private companies cannot rely on an injection of cash from an owner to keep the business going indefinitely. The break even analysis aims to encourage clubs to aim for more

balanced, longer term sustainable growth rather than aiming for quick fixes such as large scale player purchases after a bad season.

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