Club owners: capital at the service of sport?

Shareholder and club typology

In most cases nowadays, the legal basis for a professional club is a company whose capital is held by shareholders, whether physical or legal entities. This co-ownership can lead to the distribution of dividends as soon as the company makes a profit. However, this has not always been the case. Indeed, modern sport, conceived at the end of the 19th century, was based on the doxa of voluntary work by association leaders who could not be legally paid.

For several decades, the commercialisation of the sporting spectacle, linked to its growing media coverage, has accelerated the generalisation of professionalism. In North America, this evolution started in the 1920s and 1930s. In Europe, the change began in the 1980s and 1990s. This new age of televised sport has had two consequences: legal, with the transformation of non-profit clubs into corporations; and economic, with the recomposition of professional sport around the classic mechanisms of the market economy (property rights, shareholding, dividends, expectation of a return on investment). Moreover, the globalisation of professional sport through television - especially football - has led to the internationalisation and diversification of shareholders: billionaire oligarchs, investment funds, sovereign wealth funds, dedicated holding companies, states, etc.

The accelerating financialisation of professional sport is also due to the growing capital requirements of a high-performance activity, which is increasingly expensive in terms of recruitment, equipment, technical support and scientific and medical preparation. In addition, the Covid-19 pandemic that emerged in 2020 is negatively impacting the funding of clubs and leagues. The ban or restriction of spectators from stadia has led to a loss of direct (ticketing) and indirect (merchandising, catering, refreshment stands) revenue. The sporting movement has tended to open up more to the presence of companies that were previously outside its vision, notably private equity companies, at the risk of losing control over the governance of clubs and competitions.

Around the world, some investment funds are exploiting the new business model of sport by diversifying their asset portfolios to reduce the risks of these investments and maximise their revenues. They do this by simultaneously acquiring stakes in several European and non-European clubs both in football and other disciplines. Sporting ethics and the integrity of the competition can therefore be affected when these clubs participate in the same championships, and their

owners influence the sporting results according to their economic interests [Breuer, 2018].

Examples of such multi-owners include the American holding company Kroenke Sports Enterprises (real estate) with Arsenal and four North American franchises(Los Angeles Rams, NFL, Denver Nuggets, NBA, Colorado Avalanche, NHL, Colorado Rapids, MLS); the American Glazer family (real estate) with Manchester United and the Tampa Bay Buccaneers, NFL; the multinational Red Bull (energy drinks) with two football teams (R.B Leipzig, R.B New York) and two Formula 1 teams (R.B Racing, R.B Toro Rosso Honda); the American Philip Anschutz (oil, railways) with 3 French clubs (Los Angeles Kings, NHL, Los Angeles Lakers, NBA, and Los Angeles Galaxy, MLS); the American fund Fenway Sports with Liverpool and the Boston Red Sox, MLB; the subsidiary Suning Sports of the Chinese group Suning.com (retailing) with 2 football clubs (Inter Milan and Jiangsu Suning Football Club).

In Europe, of the 55 national top-flight football leagues under UEFA's jurisdiction [2020], 43 leagues have one or more clubs controlled by a private company (i.e. 78%), and 27 leagues have one or more clubs owned by foreign investors (i.e. 49%). In contrast, the clubs in 11 leagues are owned by public institutions (local authorities or state-funded bodies). 67 of the 715 clubs (9%) have foreign owners of around 15 different nationalities: American, with teams from 7 championships Arsenal, Liverpool, Manchester United, Tottenham, Bordeaux, Marseille); Chinese in 6 leagues (Aston Villa, AC Milan, Inter Milan); Russian in 4 leagues (Chelsea, Monaco); Emirati (Manchester City), Qatari (Paris Saint Germain), British (Nice), Icelandic (West Ham), Italian (Watford), Thai (Leicester), Swiss (Southampton), Luxembourgish (Lille). It should be noted that, in contrast to the economic evolution of football, 4 football clubs in Spain are still owned by their member-supporters, mainly FC Barcelona (150,000 "socios") and Real Madrid (80,000). See UEFA Benchmarking Report, 2020.

Profit maximisation vs victory maximisation

The standard hypothesis of the theory of the firm postulates that the objective of a company is to maximise its profit. In the field of sport, the economic literature identifies and contrasts two models. In North American leagues, with the profit maximisation model, the organisation of the competition and the role of the league are at the service of the logic of financial gain. In the European competitions with the utility maximisation model, the primary objective is to obtain sporting gains, and the utility function can include, in addition to the number of victories for glory, the number of spectators for atmosphere, competitive balance for suspense and revenue for profitability.

Certain characteristics of the North American and European models have encouraged the arrival of shareholders. In North America, with the principle of closed leagues, the absence of the risk of demotion reduces the risk of sporting hazards, which gives visibility over time that investors appreciate. For Europe, the exponential growth of TV rights and transfer turnover from the 1990s onwards has transformed the football economy into speculative activity. And the implementation of financial fair play, from the 2013/2014 season onwards, has contributed to the rationalisation of club management, with the granting of a licence - necessary to validate the qualification of clubs for the European Cup - being conditional on the alignment of the level of their expenditure with the level of their revenue.

Investments in sports clubs may be driven by direct profitability objectives (profits, dividends, capital gains). Five characteristics are likely to attract financially motivated operators: the quality of the detection and training system, which allows players to be resold on the very lucrative transfer market with significant capital gains; the continuous increase in domestic and foreign TV rights; the international growth potential of the turnover of by-products; the modernity and multifunctionality of sports stadia; the concentration of revenues for clubs qualified for the final competition stages (play-offs in North American leagues or from the quarter-finals onwards for the Champions League in Europe).

However, with the uncertain and low profitability of investments in sport, the takeover of clubs can aim at indirect profitability [Franck, 2010]: in order to convey a positive image on markets outside sport (petrochemical companies), re-establish a tarnished image (oligarchs), seek political legitimacy (Silvio Berlusconi with AC Milan, Bernard Tapie with Olympique de Marseille), generate sectoral strategies (communication groups), penetrate new foreign markets (Chinese investors), develop its image in Western society and spread its brands in promising markets (shareholders in Asia or the Middle East), increase its soft power through sport (China, Russia, United Arab Emirates, Qatar) or launder illegal capital (oligarchs, drug traffickers).

These motives are not necessarily exclusive and can be cumulative. It will be interesting to observe whether the arrival of new investors in European football - already owners of North American franchises for which profit is a privileged goal - will influence the behaviour of other club owners still set in a logic of maximising sporting gains, and potentially influence the overall orientation of the leagues.

Numerous studies show that in Europe in particular, the goal of maximising wins outweighs profit maximisation. Several explanations have been put forward to understand this anomaly concerning the mainstream approach to corporate objectives. The behaviour of

sports clubs is determined by the history and legal status of the clubs, the expectations of the supporters, the motivations of the managers, the search for a title, qualification or promotion and the threat of relegation. The search for profit would require limiting salaries, which would reduce the power to attract talent and the competitiveness of the team [Arrondel and Duhautois, 2018].

Sport at the service of a global business project

The example of football may help to illustrate a paradox of the economics of professional sport. It is the most popular sport in the world and yet it has a modest economic activity. Real Madrid, massive in terms of its history, record of success and global notoriety, had a turnover (the highest in world football) of 775 million euros and profits of 76 million (for 2017-2018), which are very small amounts compared to those of large companies (hundreds of billions of euros in turnover and tens of billions of euros in profits). In effect, the average income of a professional football club (85 million euros for the French Ligue 1) corresponds to that of a medium-sized supermarket, not even a chain of supermarkets, but a single supermarket!

However, thanks to new technologies (television, digital), Real Madrid offers its services to hundreds of millions of consumers (fans), which is much more than the number of customers of most of these same said companies. This paradox is explained by a problem of economic appropriability of the football 'good'. Clubs can only appropriate a tiny fraction of the economic value generated by the public's passion for the sport [Kuper and Szymanski, 2014]. A football match often has the characteristic of being consumed together with other goods. However, almost all the externalities of the football spectacle are captured by other economic agents rather than the clubs: the media (apart from those who pay broadcasting rights), hotels, restaurants, bars, betting companies, etc.

This is why several clubs are aiming to create real multinationals around football by imposing their brand to extract more of the value associated with the consumption of this sport. Let us take the example of Manchester City for instance, chosen from one of many possible clubs (Manchester United, Juventus Turin, etc.). The holding company City Football Group (CFG), the owner of Manchester City, wants to become a global company (like Coca Cola) and install a label (City) by using football to penetrate new markets. A strategy of 'glocalisation' - taking a global product and adapting it to local markets - was implemented: the purchase - or acquisition of stakes - in eight clubs on different continents: New York City FC (United States), Melbourne City FC (Australia), Girona FC (Spain), Yokohama F Marinos (Japan), Club Atlético Torque (Uruguay), Sichuan Jiuniu (China), Mumbai City FC (India) and Lommel SK (Belgium), as well

as the creation of commercial subsidiaries and football schools in China, Singapore and the Middle East.

The aim is to seize all the opportunities offered by the convergence of entertainment, sport and technology with the hundreds of millions of fans active on social networks. The diversification and nature of City Football Group's shareholding reflect the growing interest of companies from outside the sports world in conquering these markets: the Emirati sovereign wealth fund Abu Dhabi United Group (a public investment fund owned by the Emirati state seeking to make the most of its national savings); private equity firm China Media Capital (CMC); a consortium of Chinese investors, CMC-Citic Capital; and US investment company Silver Lake. The latter, which specialises in new technologies (Alibaba, Dell, Skype, etc.), bought 10% of the City Football Group in 2020 for 500 million dollars, which values the holding company at $4.8 billion.

The ostentatious spending of billionaires

There are increasingly more billionaires in the world (470 in 2000, 2153 in 2019 according to Forbes) and equally more billionaires are investing in sport. At least 140 professional clubs are owned by 109 billionaires according to the UBS bank [Drut,2019]: Russian (energy) oligarchs Roman Abramovich (Chelsea FC) and Dimitri Rybolovlev (AS Monaco), Pakistani-American Shahid Khan (automotive equipment, Jacksonville Jaguars, NFL; Fulham FC), Indian Mukesh Ambani (petrochemicals, Mumbai Indians, cricket), Ukrainian Rinat Akhemetov (energy, Shatkhar Donetsk), American Joe Mansueto (financial services, Chicago Fire FC, MSL), Frenchman François Pinault (luxury goods, Stade Rennais), Briton Jim Ratcliffe (petrochemicals, Ineos cycling team, FC Lausanne, OGC Nice).

The common denominator of billionaires investing in sport is that they have extra-financial motivations, or at least the objective being that the financial aspect is not of primary importance: leisure, disinterested pleasure, conspicuous consumption, global fame, social and political recognition. It is a matter of differentiating oneself by obtaining a status that others will not have; the purchase of cars, boats or luxury houses is no longer sufficient to achieve this. Thorstein Veblen [1899, re-edited 1970] is known to have shown that the notion of conspicuous consumption better explains purchasing behaviour in modern societies than simple utility maximisation. The American economist contextualises the behaviour of agents - who are no longer viewed as simple rational agents - and makes an individual's consumption dependent on the rules and habits of the social group to which he belongs. Thus, the ostentatious spending of the very rich stems from a need for prestige, esteem and recognition, and pecuniary rivalry, since wealth and power must be made visible.

The purchase of a football club, in particular, would make it possible to satisfy this search for distinction by obtaining a position that is difficult to attain: there is only one national champion and one European champion per season. This good thus becomes 'positional' for the owner in the sense that their satisfaction is derived from the fact that others' consumption is lower than their own. This Veblen effect is coupled with a snobbery effect, as when the rich do not want to buy what others buy because they would no longer be able distinguish themselves from others. Roman Abramovich's expenditure on Chelsea illustrates the ostentatious nature of his spending, which results in maximising sporting success without budgetary constraints: from 2005 to 2020, more than two billion euros were invested, returning five Premier League titles and one Champions League title.

Whatever the motivations behind the strategies deployed by club owners, the billions of euros spent each year in the professional sports industry have a considerable impact on all the competitions in which their teams participate: inflationary overbidding on salaries and transfers, distortions of economic competition, sporting imbalance in national and international competitions, lack of fairness in the championships, criminalisation of the sports economy, etc.

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