

# **ANALYSIS AND EVALUATION OF FINANCIAL MANAGEMENT STRATEGIES OF SPORTS CLUBS**

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**Abstract:** In order to be successful in an increasingly competitive environment, today every sports organization has to face challenges, which are increasingly difficult to anticipate with accuracy, a fact that causes management to care more and more about performance. The strategic approach to the management of a sports organization has as its starting point the fact that sport has become, in the current era, a complex phenomenon with economic, political and social connotations. We have focused the study on the analysis of financial management strategies and practices used by top sports clubs in Europe, as this is where the highest turnover is obtained in the field of football, highlighting the factors that led to the advantages or disadvantages of applying such strategie.

**JEL classification: Z23, M16**

**Key words: Club sports, financial strategy, value creation, sports performance, financial performance**

## **1. INTRODUCTION**

Sports organizations are increasingly concerned to design, develop and implement strategies to improve organizational performance. The starting point in this endeavor is the organizational diagnosis, respectively the evaluation of the current situation of the sports organization.

Organizations, by their very nature, are increasingly complex and difficult to manage. Gradual change in recent years has been replaced by rapid change, and managers now have to face new challenges due to a changing and increasingly uncertain environment, which intensifies competition and raises the bar for new performance standards, which the management team must touch them.

Accountability for performance involves the combination and coordination of human, material, technological and financial resources to achieve the organization's goals.

## **2. OBJECTIVES**

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In order to be successful in an increasingly competitive environment, today every sports organization has to face challenges, which are increasingly difficult to anticipate with accuracy, a fact that causes management to care more and more about performance. Gradually, the competition forces sports organizations to increase the quality of the services they offer, increase customer satisfaction, increase the speed and flexibility of responding to customers, and constantly innovate to provide new services. Achieving these new standards is the responsibility of the sports manager.

The strategic approach to the management of a sports organization has as its starting point the fact that sport has become, in the current era, a complex phenomenon with economic, political and social connotations. Treating the sports organization as a public entity brings attention to the development of a policy in the field, which will make strategic choices available to sports organizations, which are also obliged to practice rational and efficient management in order to achieve strategic and managerial performance.

In the last decades, sports organizations have become subjects of commercial activities, their management being based on strategic elements, using both financial and non-financial resources. A top sports club has the ability to effectively implement appropriate financial strategies so that it can manage risks. Examples of top sports clubs can be found in the field of football. European and world football clubs, in their desire to increase their income, began to adopt various financial and management strategies so that they turned into real modern sports and media companies. This transformation of football clubs has increased the attractiveness of investors, with very large sums of money being invested in the football industry. Also, the ever-rising media industry has allowed football clubs to negotiate more advantageous broadcasting contracts. The Champions League, one of the biggest sports competitions in the world, bringing together Europe's top clubs, organized by UEFA, has generated staggering income for clubs, both through results and through several sources of income. Thus, only for the 2021-2022 edition a team participating in the UEFA Champions League, had the chance to win, based on the results alone, a maximum of 85.1 million euros, a team participating in the Europa League, a maximum of 23.4 million euros, and a team participating in the more recently created Europa Conference League, a maximum of 15.5 million euros. Football clubs can receive money not only for the performances of their teams, but also through television rights, quota-based payments (a ranking system of participating clubs based on points accumulated over the last 10 years) or advertising.

The turnover of the top 20 football clubs in Europe was €9.2 billion in 2021/2022, up 13% from the 2020-2021 level of €8.2 billion. However, the financial health of many European football clubs is fragile, with debts and losses piling up despite increasing revenue streams and investment by shareholders.

This is mainly caused by the very high salaries of football players and the payment of very high transfer fees for players, justified by the pressure on them for a high performance on the pitch. In recent years, the salaries of football players have increased continuously, coming to represent approximately 50-60% of the clubs' income. But, in many cases, the performance objective is not reached, the investment in the transfer of players being one that carries a high degree of risk, which can lead to financial imbalances, to the increase of debts and costs. A measure to counteract this is testing the introduction by UEFA of the conditioning of participation in European cups.

Thus, the participation license can only be obtained if the level of salaries, purchases and commissions does not exceed the ceiling of 70% of total revenues.

### 3. METHODOLOGY

Football business, like other fields and modern businesses, is governed by the laws of the market economy, general principles that include the management of financial, material and human resources. In the context of the globalization of markets, the management of sports business through both short-term and long-term planning, of processes and phenomena, acquires particular importance. Analyzing and evaluating the effectiveness of the financial management strategy to be applied leads to appropriate financing and investment decisions that take into account potential risks.

We have focused the study on the analysis of financial management strategies and practices used by top sports clubs in Europe, as this is where the highest turnover is obtained in the field of football, highlighting the factors that led to the advantages or disadvantages of applying such strategies.

### 4. ANALYSES

The close connection between supporters of sports teams and their clubs is essential for the sustainability of professional sports competitions and leagues. In the field of football, there has been a steady increase in supporters of football teams, mainly due to TV broadcasts. Audiences for major football events are measured in the billions of viewers, with viewers added to supporters attending matches. The relationship between team supporters and their clubs has undergone various transformations over time with the commercialization of sports and the financial expansion in sports.

A few decades ago, sports clubs relied on their members and volunteers, and fans could influence the direction of the club. As the business of sport has become more competitive, sports clubs are increasingly commercial, and thus the financial management of sports clubs has become professionalised. Recently, we are witnessing an unprecedented development of the commercial side of sports. Sponsorships, television rights, players' earnings in continuous growth, the transition to a professional club management, the improvement of the quality of sports competitions have led to very high costs for the organization and running of sports events, but also to the increase in the consumption of sports. The changing behavior of sports consumers, different from other types of consumers, explains the growing importance of sports in a global world where traditional cultural identity is under threat.

The average attendance at football matches of a sports club is an indicator that provides information about the total volume of tickets sold for the sports club's matches. Attendance at football matches is apparently unrelated to financial management strategy, but it has a strong influence on the financial results of sports clubs. The table below presents data on the attendance at matches of the football teams of the main 10 European clubs, in the period 2016-2022.

**Table no. 1 The average attendance at the team's home games**

	<b>Sports Club</b>	<b>2022/ 2023</b>	<b>2021/ 2022</b>	<b>2019/ 2020</b>	<b>2018/ 2019</b>	<b>2017/ 2018</b>	<b>2016/ 2017</b>
<b>1</b>	<b>FC Barcelona (ESP)</b>	84576	45092	60809	86178	73861	85863

2	Borussia Dortmund (GER)	81122	31607	65844	66099	65402	63698
3	FC Bayern München (GER)	75000	34000	50000	69536	70000	70000
4	FC Inter Milano (ITA)	67267	41133	62540	65857	57529	46622
5	Atlético de Madrid (ESP)	58797	58158	62232	60068	57596	46751
6	Real Madrid CF (ESP)	54270	48444	70438	66314	75398	75547
7	Liverpool FC (ENG)	53264	51618	50493	52907	49960	53016
8	Manchester city	53185	49775	37594	49535	48050	47065
9	Manchester United FC (ENG)	74141	72893	58700	73708	74467	75290
10	Paris Saint-Germain FC (FRA)	46762	44911	35072	45144	46382	45516

Sursa: <https://www.worldfootball.net/attendance/eng-premier-league-2021-2022/1/>

The analyzed period also includes the impact of the COVID-19 pandemic, which was a significant one, with all clubs practically paralyzed, starting from March 2019. The table does not include the 2020/2021 period, most of the matches were played without spectators, starting from June, which led to near-zero ticket sales. "Revenues from match days are crucial to the business model of sports clubs and help to stimulate other revenues. The final size of the financial impact of the pandemic on football will depend, to a large extent, on the timing and extent of the return of fans" (Jones, 2021).

In this context, of the large-scale commercialization of sports worldwide, sports businesses take on the characteristics of commercial businesses, with strong ties in the corporate sector, trying to increase the scale of the phenomena and improve the standards of competitions, to promote products and attract the public.

Business model in sports claims a massive increase in the income of sports clubs. In addition to the traditional forms of obtaining income - receipts from tickets, subscriptions, new and varied streams of income have developed, which have generated changes in the way clubs operate. The financial management of sports clubs must answer the following questions, such as:

- What is the source of the funds?
- How are the funds used?
- How are financial flows monitored?

The answer to these questions is possible only after a clear distinction between the funds for investment in capital development - the amounts used for the creation of infrastructure and sports facilities and the operational funds necessary for the current management of the sports organization.

The total revenue of the sports club represents the total amount of revenue that the sports club obtained during the reporting period. It is one of the key indicators of the sports club's financial activity, its evolution providing information on the effectiveness of the sports club's financial management strategy.

In Table no. 2 we highlighted the evolution of the total revenues (in millions of euros) of the main 10 football clubs for the period 2016-2022.

**Table no.2. Total annual revenues (millions of euros)**

	<b>Club sportiv</b>	<b>2021/ 2022</b>	<b>2020/ 2021</b>	<b>2019/ 2020</b>	<b>2018/ 2019</b>	<b>2017/ 2018</b>	<b>2016/ 2017</b>
1	FC Barcelona (ESP)	1017	582,1	715,1	840,8	690,4	648,3
2	Borussia Dortmund (GER)		337,6	365,7	371,7	317,2	332,6
3	FC Bayern München (GER)		611,4	634,1	660,1	629,2	587,8
4	FC Inter Milano (ITA)		330,9	291,5	365	280,8	262,1
5	Atlético de Madrid (ESP)		332,8	331,8	368	304,4	272,5
6	Real Madrid CF (ESP)	713,8	640,7	691,8	757,3	750,9	674,6
7	Liverpool FC (ENG)		550,4	558,6	604,7	513,7	424,2
8	Manchester City	731	644,9	549,2	610,6	568,4	527,7
9	Manchester United FC (ENG)		558	580,4	711,5	665,8	676,3
10	Paris Saint-Germain FC (FRA)		556,2	540,6	635,9	541,7	486,2

Sursa: <https://www.footballbenchmark.com/documents/files/public/UEFA%20Club%20licensing%20benchmarking%20report.pdf>

In the 2019/2020 and 2020/2021 football seasons, all sports clubs faced great difficulties caused by the pandemic, with an estimated total of 2 billion euros in revenue lost.

The financial success of a sports organization is ensured by streamlining the business management strategy. Creating a competitive advantage for sports clubs requires focusing on the following elements:

1. Strategic resources - recruiting players and coaches with outstanding skills, talented, with tactical knowledge, difficult to imitate
2. The reputation of the club – a strong identity and a good image, reinforced by branding campaigns, capable of increasing fan support in the widest possible areas and meeting the demands of potential corporate sponsors.

3. Structural intellectual capital – effective internal management structures and relationships that the sports club can develop with stakeholders lead to increased trust between club officials, players and coaches.

4. The potential for innovation - improved administrative processes, use of technology to facilitate decision-making and athlete performance.

Value creation for sports organizations is the consequence of sports performance achieved on the field, through talented players, workers and quality training, but also of financial performance, achieved off the playing field, achieved through managerial efficiency, community and corporate support. The two components are interdependent, success achieved on the field will lead to increased financial results, and a solid financial foundation creates the premises for high performance on the field.

The value creation model for sports clubs is illustrated in figure no. 1, emphasizing the importance of the factors that lead to their performance and the creation of competitive advantage.



**Figure no. 1 Creating value in a sports club**

Sports clubs will be able to create value as long as they can ensure stable profits and reinvest a consistent part of them in increasing the quality of the players, the quality of the infrastructure and the attractiveness of the organized events.

## 5. CONCLUSIONS

Successful sports clubs are business organizations whose primary goal is to create value by identifying and maximizing potential revenue streams and controlling expenses associated with the operation and development of the club. The financial sustainability of the sports club is based on the following key factors:

- The sporting performance of the club (quality of players, coaches and staff, ranking, level of competitions in which they participate)
- The supporter base (the large number of spectators generates large receipts from tickets and subscriptions, but also from higher fees for broadcast rights)
- Club brand (history and tradition, track record)
- The infrastructure of the club (the capacity of the stadium, the quality of its facilities, its accessibility)
- Location of the club (city or region where it is located, size of the population in the area, culture and traditions of the area)
- Club culture and values (primary concern for revenue growth rather than cost containment).

The value of the sports club is more than its profitability. The creation of value depends on the assets held, the level of its medium and long-term debt, and the earning potential of the club. Continued profitability creates the conditions for an increase in the value of the sports club, by reinvesting profits and increasing the ability to generate future income streams. So it is important to understand the interdependence between profits and value creation for sports clubs, how they are valued and why some are highly valued and others are much less valued.

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