

A Comparative Study Of How To Finance Professional Football Premier Leagues In Iran and England

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Abstract: The main objective of this comparative study is to see how professional football clubs in Iran and England's premier league are financed. This applied research has been conducted in a descriptive and analytical way. The results of the study showed that there is a significant difference between the ways through which English and Iranian professional football league clubs are financed. Most Iranian clubs are funded by government and industry-based sources (65%) while most English clubs are private and are funded by television broadcasting rights (31%), match-day income and cash flow from business (22%). Some major barriers to financing Iranian professional football league clubs are as follows; the state-run clubs, lack of financial transparency, the fact that IRIB refuses to pay the media broadcasting right to the clubs, failure in complying with copyright law in Iran, inappropriate competition schedules, unsuccessful club marketing management, club managers lack of awareness about new methods of financing, limited use of creative sport directors with financial and business expertise at different levels of football industry.

Key words: Financing, comparative study, professional football premier leagues, Iran, England

INTRODUCTION

Although Europe has paid considerable attention to the studies on football as a profitable and commercial industry, In Iran this aspect of football which is supposed to be the most significant has been overlooked. Although more than 10 years have passed since the first time Iran's football took a step toward professionalism, it isn't still considered as an industry and in comparison with other countries Iran's economy doesn't seem to have made any progress in this field. Evidence has shown that football is the most popular sport throughout the world and in many countries of the five continents it is widely recognized as a national sport (Elahi, 1994). The fact that stadiums are over flown with millions of football fans throws light on the popularity of football worldwide (Chester, 2002) Along with the growing tendency toward this sport, a lot of dramatic changes have been made to the extent that the current professional football can't be compared with the past. Exchanging millions of dollars for transferring players, having sponsors with large capitals, selling sport goods with professional club's brand, investing millions of dollars on advertising at the stadiums, making a profit from TV broadcasting rights, including the clubs on the stock market and many other factors have played an important role in the expansion of football productivity in many countries (Morrow, 1999)

Although being financially supported by the government, Iranian professional club's dependence on government budget and it's financial aids has turned them into costly and unproductive organizations which are not able to present a positive annual financial balance sheet. Considering these poor conditions in Iranian pro – league football, has made Asia football confederation (AFC) has frequently encouraged Iran's professional clubs to reconstruct their lucrativeness.

The overemphasis of AFC on this reconstruction reveals that active football clubs in Iran's pro-league haven't been able to make the most of their full potential in a way to gain their financial independence from the government. Financial and athletic success go hand in hand with each other and neither of them can be achieved in the absence of the other; therefore there's a positive relationship between the two.

Samagaio (2007) conducted a research on the interface between sporting, financial and stock market performance in English football from the year 1995 to 2007 and he found that there is a strong relationship between financial and sporting structures.

Furthermore, the directors are trying to make a minimum level of profit and gain a maximum level of practicality. On the other hand, the figures recorded in sporting and financial invoices are in agreement with stock output and have no relationship with club risks. Football clubs use various methods of financing worldwide. For instance, in a study by Bernard Mnzava on "Financial plight in English premiership football: an impact of recent global recession" some major financing methods in English premiership football were discussed including the match – day incomes (entrance-fees, seasonal sales and membership), broadcasting incomes that come from TV, radio, international or local competitions and commercial incomes, sponsorships and business incomes. (Mnzava, 2011)

Buraimo in his article called “English football “ mentions that lower scale clubs in the league put their effort into seasonal matches which are funded by financial rewards and that lead to their promotion (Buraimo, 2006). Research has shown that the main financial sources in football industry are subsequently as follows: TV broadcasting rights, sponsorships and match – day income and the factors which prevent the sponsors from investing on football industry are : feeling insecure and uncertain about investing on football industry, lack of specialized agencies and human resources who are expert at sport marketing, lack of applicable projects and poor marketing performances, problems with the quantity and quality of broadcasting matches, state – run clubs and failure in complying with copyright law in Iran which are major problems in this field. (Elahi, 2009). Barajas (2010) stated that according to the data taken from the financial statements of June 2008, Spanish Football Industry Business Model presented a serious structural deficiency. Barajas (2004) concludes that in Spanish professional football there was a lack of financial transparency. For example, there are often delays in the duty of presenting the Financial Statements. Moreover, there are numerous exceptions in the auditing reports. Lago *et al.* (2006) stated during the last few years, Spanish professional football has been in a serious financial crisis. The problem is the imbalance between income and expenditures and, as a consequence, rising debt. The general financial crisis has implied increasing difficulties to meet funding.

Pinnuck and Potter (2006) carried out within the Australian Football League examined how the on-field football success impacts on the off-field financial performance of the AFL football clubs. Their results provide evidence that the short and long run success of the clubs and the uncertainty of the outcome affect attendance at AFL matches. Additionally, they argue that changes in membership are a positive function of past success and found to be directly associated to marketing expenditures made by the club. In accordance with previous findings, Keshock (2004) has also seen transparency of economic information about a certain sport as one of the key elements in decision making processes of companies, which leads to financially supporting the sports. (Keshock, 2004). Also Mischie and Oughton claim that professional clubs can make more profit by revealing their management and financial information to sponsors (Mischie & Oughton, 2005). Sometimes unprofitability on the part of clubs may not be due to their incapability in financing but it may contribute to the structural problems of clubs which leads to their failure. Mehrabani (2010) in his study claims that the main obstacle to Iran's economic expansion is not just due to its failure in implementing new financial methods but it is because of inappropriate structural organizations and absence of management standards. Also factors such as economic policies of a country, its rules and regulations and religious and cultural issues can be influential in this area. However, after considering all the environmental elements and analyzing different financing methods, the financial manager of the club will be able to choose the best and most applicable options.

Rajabzadeh (2006) in his study analyzed the financial climate of different countries around the world and also investigated that in Iran regarding the industrial section and he found that companies located in developing countries in comparison with their rivals in developed countries focus more on the external financial sources.

Bradley, M (1984) conducted a research on financing methods of some great companies in England and found that their management highly advocates internal financing as a new source and they even have put the external sources aside and they just use borrowing as the only external financial source if needed. (Bradley, M, 1984)

Also Mayer (1989) analyzed the financial structures of companies in eight different industrial countries during the years 1970 to 1985 and reported that the accumulated profit is the major financial source in all these countries particularly England, Canada and America, in other words in America and England more than 75 percent of investments have been financed through accumulated profit, and there is a negative relationship between using the accumulated profit and bank credits so we can conclude that small businesses have used external sources more than big businesses. And regarding their financial structure they were more depend on commercial banks. And less depend on Securities (Mayer, 1989)

Singh and Hamid (1992) analyzed the financing methods of 5 developed and developing countries, the main results of this study have revealed that the companies located in developing countries mostly use external sources for financing. (Singh & Hamid, 1992: 31)

Corbet and Jankinson (1994) investigated methods of financing in developed countries during the years 1970 to 1989 and concluded that the major methods of financing in all the companies under investigation were through internal sources. Internal sources were applied more in America and England than in Japan (Corbet and Jankinson, 1994). Managers can play a key role in financial markets, they should be familiar enough with financial markets and methods in order to choose the most economical financing way and apply the appropriate financing methods.

Moreover due to globalization of football economic issues and popularity of this sport in Iran it is clear that the issue of financing the football professional league has gained more importance over the years. Also being highly dependent on importing oil and due to oil price fluctuations and the finite nature of oil, pushes Iran's economy toward the development of other industries which have high potentials for lucrativeness. Thus, for a developing country like Iran seizing all the profitable commercial and economic opportunities is an undeniable necessity.

In addition, from a financial and economic point of view, improving the conditions of the premier league can result in the promotion of the general position of football both nationally and internationally.

Considering the growing importance of lucrativeness in clubs, the improvement of financing methods applied in the premier league needs well-organized and orderly organizations and research.

By implementing the result of these studies, helpful suggestions can be offered to state and private officials so that they would be able to make research-based decisions and take giant steps toward the development of financing in the premier league.

The present study is a comparative investigation of financing methods used in Iran and England's football premier leagues.

MATERIALS AND METHODS

The current study is an applied research which was implemented in a descriptive and analytical way. We tried to report the results without any prejudice in this comparative study we analyzed the financing methods which have been used to fund the professional clubs in the premier leagues of Iran and England.

2.1. Sampling:

The sample in this study is all the Iranian professional clubs (2010 – 2011). All the Iranian professional clubs of the premier league participated in this study. Our criteria for choosing England as the basic model were its professionalism, accessibility to data and information, transparency of financial and economic information, reliability and validity of information and their professional experiences in managing pro-leagues.

2.2. Instruments And Data Collection Procedures:

In this study, we applied a reliable questionnaire to collect data on financing methods used in Iran's professional football clubs of the premier league. After collecting the data from the first sample they were analyzed with SPSS software and Cronbach's alpha coefficient was estimated approximately 0.8313 for questionnaires. For more data we also analyzed the club bills including balance sheets and profit and loss accounts. Additionally for data collection we did library research with reference to local and international articles and used the internet, club websites and financial annual reports which have been officially published by English clubs in the premier leagues and the union of European Football Association (UFA). Eighteen questionnaires had been distributed among Iran's professional clubs of the premier league, Out of which seventeen were fully completed and only one was incomplete and therefore it was eliminated.

Descriptive statistics had been used for data analysis and considering the nature of this study and its results were presented in tables and figures.

Results and Findings:

In the present study, the financing methods which are usually used in Iran's professional clubs of the premier league were compared with those in England and this study led to the following results.

Table (1) shows the data related to the percent of the share of income for every financing method implemented by Iran's professional clubs in the premier league in 2011. As it is featured, the biggest share has been offered by industrial support or mother companies (dependent industries) (65%) Iran professional clubs in the premier league haven't applied financing methods such as media advertising rights, department stores, financial aids and donations, stock market, stockholder's investment, bank profits and currency exchange. Whereas England premier league clubs have used various methods of financing, in the present study we refer to the major ones which are the most influential in the profitability of clubs and which have been common among all the clubs.

Figure 1 shows the results of the comparison between the share of financial sources in the lucrativeness of Iran and England's professional football clubs in the premier league from 2010 to 2011. In this Figure we tried to compare major financial sources in both countries. As it is clear in English pro-league clubs the income which comes from media has devoted the biggest proportion to itself. While the income which comes from media in Iranian professional clubs in the premier leagues is about 1%. In Iran the biggest proportion of financing sources is provided by government supports and mother companies (dependent industries) (66%) whereas this is zero percent in England. The proportion of meeting financial needs through commerce is considered as the second source of income in English clubs (22%) and in Iran it is (23.26%). The third source of income in England comes from the match-day which is 5.36% in Iran. English clubs have used loans and leasing as a method of financing for approximately 17% which is estimated in Iran for 1.27%. The proportion of financing through transferring players in England is 7% and in Iran it is about 1%. England's professional football clubs in the premier league have used about 1% of stockholder's investment to meet their financial needs whereas Iran's professional clubs are not dependent on this and haven't used stockholder's investment at

all. Other financial sources in Iran include Federation’s assistance, fan’s financial support which is about 3.11% and in England other financial sources such as donations, financial aid and betting were estimated for about 1%.

Table 1: Percentage of the share of each of the financing methods in lucrativeness of football pro-league clubs in Iran (2010-2011)

Row	Financing methods in pro-league clubs in Iran	The share of income
1	Advertizing income(advertizing around the football field)	4.8
2	Football ancillary service income	1.93
3	Media Broadcasting income (TV, radio, magazine...)	0.93
4	Advertizing right income	0
5	Player’s transferring income	1
6	Match income	2.48
7	Store income(Sport goods, coffee shop, restaurant)	0
8	Donation & gifts	0
9	Fans financial aids	0.062
10	Loan	0.12
11	Ticket sale	0.95
12	Club branding incomes (T-shirts, goods...)	0.057
13	Income of educational and cultural activities (advertizing, seminars...)	0.38
14	Stock income	0
15	Stockholders’ investment	0
16	Financing through sponsor	14.53
17	Income of government support	1
18	Club budget coming from mother companies(dependent industries)	65
19	Football school s’ income	0.69
20	Football federation aids	2.85
21	Bank deposit profits	0
22	Currency exchange income	0
23	Income of offering athletic services (assigning executive department)	2.8
24	Leasing and renting income	1.15

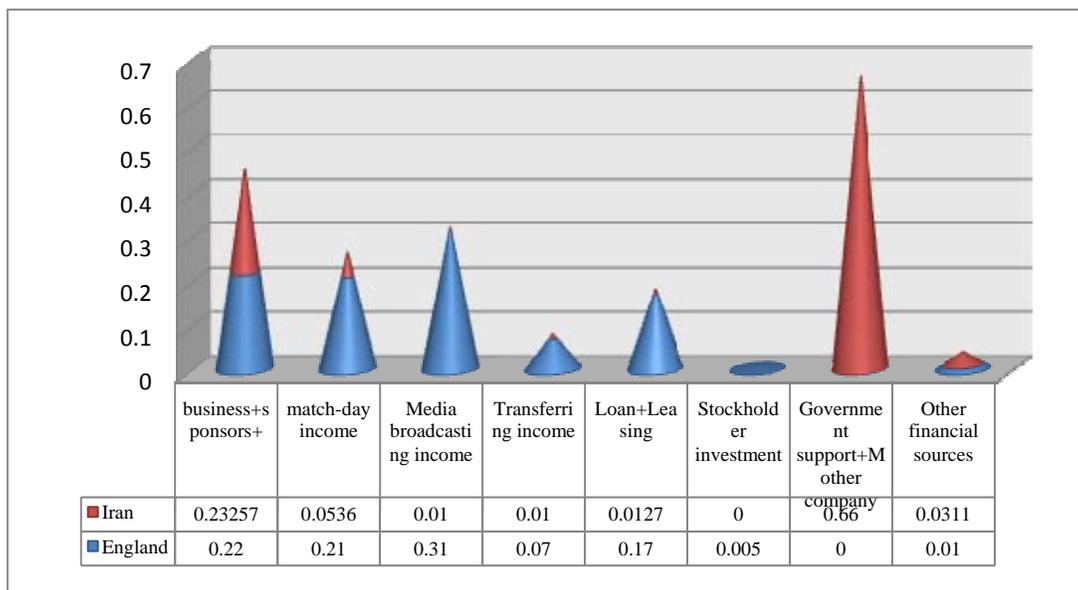


Fig. 1: Comparing the share of financing sources in lucrativeness of professional football clubs of premier leagues of Iran and England (2010-2011)

Discussion:

In this comparative study different methods of financing the professional clubs of Iran and England’s premier leagues were analyzed and their similarities and differences have been mentioned. The club management systems in England are directed by the private section; whereas the Iranian clubs are state – run. The state – run clubs have expanded so widely that they have turned into a big problem for the sport of this country. Since on one hand issues such as team management, transferring players, dealership activities, politician’s membership have distracted these clubs from their main goals. And on the other hand, it prevents private clubs from being able to compete with state-run clubs, while the government should focus on ruling the country for national profits rather than meddling directly with professional sport. From this viewpoint, the

management and sponsorship aspect would be highlighted more and since clubs don't consider themselves as part of the government, they see their survival in the light of competing with other clubs and therefore promoting their own standards. And hence, they would be globally recognized. Moreover they see their international position along with their rivalry as the main factors in maintaining their professional survival.

In Iran assigning the clubs to the private section is done by privatization organizations and considering the unprofitability of most clubs, their assignment is done through auction and OTC. (Soltani, 2011). According to Elahi's studies (2009), the fact that clubs are state – run created a government – dependant and non – competitive structure in the football industry of Iran.

The current findings reveal that about 66 percent of professional football clubs in the premier league are funded by industry or mother companies, which are considered as government aids. Also the present findings are in line with Elahi's studies. Most football clubs have a state – run structure, thus there would be less competition among the members of this industry.

Moreover, Elahi (2009) in his studies points out that facing with major problems in the field of intellectual property rights law and copyright law in Iran has led to failure in encouraging the sponsors to support football clubs. On the other hand, our results imply that financing through sponsorship in Iran is 14.53% which is a small amount in comparison with England whose one of its major financing sources is attracting sponsors to this industry (Elahi, 2009)

Based on Huda Al – khaja's assertion that the sponsors would only agree to invest on sport, only if they make sure that in case they invest on a certain sport, they would be able to make more profit than the time they choose other alternatives. As long as the legal problems such as copyright law exist the sponsors wouldn't take risks by investing on football industry (Huda 2001)

Based on Dobson and Goddard (2001) the sponsors typically tend to advertise their brand by spending a lot of money whereas this major goal can't be easily achieved in Iran's professional clubs in the premier league. (Dobson & Goddard, 2001)

Elahi (2009) implies that poor conditions of stadiums, inappropriate management and time budgeting and failure in motivating sponsors are three major obstacles to income growth, sponsors in football industry. He also adds that establishing stadiums requires a large capital and most clubs can't afford it to build private stadiums.

As a result in different countries the expenses of building and maintaining big stadiums are paid by the government.

In the present study the share of stadium in financing the clubs has been estimated for 1.93% and it can be partly due to poor conditions of stadiums. (Elahi, 2009: 189 – 202)

Williams (2002) also asserted that football stadiums should be maintained and reconstructed. He adds 80% of spectators in 43 English clubs believed that football stadiums should be built by the government with the cooperation of clubs and businesses (Williams, 2007)

Mohammad Kazemi (2009) in his study "An investigation on the comparison of price element among marketing mix element in the football pro-league of Iran with pro – league of Japan and south Korea", asserts that the most discrepancy between the under investigation elements in Iran, Japan and south Korea pro – leagues includes assigning the stock premier league clubs to the public, enforcing the copyright law both in clubs and in the league and holding orderly competitions. The results of the present study indicates that Iran's football pro – league clubs aren't financed by stock market at all. Moreover the failure in holding the matches in an organized way has abandoned their sale of seasonal tickets. (Mohammad kazemi, 2009: 18-20)

As it was previously mentioned, one of the financing methods in football clubs all around the world is the income which comes from transferring players, where in Iran only 1% of the club's financial needs are met in this way, however this method needs a well- organized arrangement.

In this regard Soltani (2010) in his study emphasizes the fact that marketing and investing on transferring players Not only provides an appropriate organizational structure for promoting the championship but also it would increase the current net profit of the upcoming incomes of private clubs and secondly it influences the economic welfare of society and it leads to the emergence of effective cultural, political and educational systems. (Soltani, 2010: 15)

Also Naderian Jahromi (2011) conducted a research on the problems of amateur football in Esfahan and realized that 34.5% of the participants referred to financial problems and lack of sponsor's support in amateur football and this reveals that even investment and scheduling in amateur football are dealing with financial problems. As a result, for transferring players as a way of financing, Iranian football league needs to make some arrangement from the very beginning. (Naderian Jahromi, 2011: 1 – 3)

Conclusion:

Even though more than 10 years have passed since the first time Iran's football moved in the direction of professionalism, this sport isn't still recognized as a profitable and lucrative industry and comparing with other outstanding countries. In this field Iran's progress in sport economics hasn't been considerable. The major reasons in this regard are lack of financial sources and being dependent on government support and the

dependence of club's on government budget has turned Iran's professional clubs into costly and unproductive organizations which are not able to present a positive annual financial balance sheet.

Dealing with these poor conditions in Iranian pro – league football has made Asia Football Confederation (AFC) frequently encourage Iran's professional clubs to reconsider their lucrativeness. There are various of financing methods which are currently being implemented worldwide; however any given country, after considering its own economic climate would choose to apply the most profitable way. Comparing with English premier league clubs, Iranian pro – league clubs are not in a satisfactory condition. And considering their effective lucrativeness, efficient step should be taken in this regard.

It is highly recommended that Iranian clubs be changed to stock companies through which they could be funded. Financial transparency of club bills can facilitate stock offering of clubs to OTC and in this way one of the alternative methods of financing can be implemented. Clubs can also be funded in other ways for which they need an experienced financial advisor and marketing expert. For instance, the Iranian football clubs can be financed through the expansion of football schools, establishing sport goods markets, commercial ways of transferring players, educational activities, cultural and athletic activities such as advisory, seminars and other ways. It is hoped that implementing the findings of this study would be helpful in tackling the sport economics and financial problems of football and other sports.

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