

THE ORGANIZATIONAL ADAPTATION OF FOOTBALL ENTERPRISES

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Abstract: Since the 1990s, professional football has undergone unprecedented economic uplift worldwide. From an economic point of view, this sport has evolved into an industry that beyond the football clubs participating in the championships that are organized by the various leagues also involves rather untransparent, complementary economic operations where companies increasingly perform their specific activities on the level of medium-sized enterprises – when they are measured against traditional industrial actors –, by following their unquestionable economic interests. Football is now a scene of structural changes worldwide that are embodied in the alteration of the legal forms of enterprises backing professional football, as well as the spreading application of modern controlling, planning, risk and financial management tools. From an economic perspective, with these recently emerging elements football clubs have started to build up a modern and complex, specialized sector where the most important requirement until the end of the championship season is the maintenance of licensing conditions. In our study we wish to rely primarily on the peculiarities of German professional football, since it shows most of all the presumable mainstream of the development of football. The outsourcing of significant branches of a football undertaking into the form of an incorporated firm should be deemed as a considerable step forward in comparison with the deficient regulations of the operations of associations, regarding the economic professionalism of football clubs, partially from the side of commercial law and partially from the side of shareholding law. Through the introduction of organizational and legal structures that are necessary for the football clubs to be considered professional, there are further positive effects generated for football companies. In the event of the use of the form of the incorporated football firm, it is about the transformation and change of the organizational unit of execution and not about a total abandonment of the form of association. In Hungary the formal conversion of the first-league clubs into capital companies has actually been implemented. Another issue is how much in Hungary the preferred form of capital companies ensures additional capital resources.

Keywords: professional football; legal forms of enterprises; incorporated firm; association;

JEL classification: K2

1. Introduction

The general conditions of professional football change at a pace that is hard to follow by the adaptiveness of most of the football clubs. These changes are so intense that one cannot avoid agreeing with Caesar Luis Menotti, the legendary Argentinean coach: "The world of utopias has now gone. We live in a utilitarian society where football is condemned to big businesses."

Football is now a scene of structural changes worldwide that are embodied in the alteration of the legal forms of enterprises backing professional football, as well as the spreading application of modern controlling, planning, risk and financial management tools. From an economic perspective, with these recently emerging elements football clubs have started to build up a modern and complex, specialized sector where the most important requirement until the end of the championship season is the maintenance of licensing conditions.

2. Role, significance of the legal forms and organizations of enterprises in football

In line with the international outlook I wish to rely primarily on the peculiarities of German professional football, since it shows most of all the presumable mainstream of the development of football. Let us overview which are the forms of undertaking in the German League football, and what the changes in trends are.

On the basis of the 1998 Resolution of the German Federal Parliament, it is possible to operate football undertakings also in the form of an incorporated firm which means that the members are not responsible for the liabilities of the company; these are share companies, limited liability companies, and limited share partnerships], in addition to the classical form of association (Bundesliga Offizielles WEB-Seite 2011). The main point here is that such part of the association participating in League football can be outsourced into the form of incorporated firm. It is interesting that in Germany 21 teams from League I and 36 teams from League 2 are operating currently in the form of incorporated firms (table 1).

Table 1. Distribution of legal status in Germany (I-II. League clubs)

Legal Form	Frequency	Distribution (%)
Association	15	41,66
Share comp.	2	5,55
LLC	4	11,11
LLC with right	5	13,88
LLC & Co.LP.	10	27,77
I.-II Liga , Total	36	100

Source: Dworak,A.: Finanzierung für Fußballunternehmen, E. Schmidt Verlag 2010, p.52

2.1. Advantages and disadvantages of registered association

Funding, registering and operating an association is relatively simple, and the rules are transparent. All strata of society like to make use of the advantages of this form of non-profit company having legal personality, which provides tax benefits. The registered associations fill such an important social role in Germany that they are exempted, in respect of the public purpose activity, from corporate income tax, industrial tax, real estate and property tax, and in addition, they are only charged by a beneficial 7% general turnover tax (VAT). Otherwise, the general rate of VAT is 19%. However, these tax benefits touch professional football undertakings to only a minor extent as these professional associations may obtain only a small amount of revenues exempt from taxation. The tax benefit helps mostly amateur and mass sports. A further drawback of operations in the form of associations is that there are no rules concerning the distribution, utilization of the realized profit. In consequence, most of the football clubs expend the realized profit on efforts to increase the value of the team of players, while have a much

weaker focus on raising financial reserves, which would otherwise be beneficial for long-term operations.

The rules relating to associations do not provide satisfactory protection even for lenders. Associations are answerable with their own assets for their liabilities, but there are no detailed legal prescriptions in the relevant law of associations in Germany. Of course, in principle, regulations may be set up relating to publicity, application of profits and collateralising the loans in the statutes of associations, which is, however, scarcely feasible. We can hardly suppose that the elected management of an association would set up restrictions on itself. Logically, all this has a negative impact on the opportunities for financing with outside capital.

It follows from all this that a registered association may only make use to a restricted extent of any potential possibilities of financing. An increase in equity is allowed primarily through the retention of profits, but we must add that the profits may only be increased up to a certain limit per year, in order to maintain the non-profit status of the company. The hosting of shares and the involvement of contributed capital may only be secured after transformation into an incorporated firm. Therefore, in the event of associations, funding by banks or private individuals who are committed to the given association will be possible in line with own revenues and subsidies. The first-mentioned resources may cover current expenditures to a minor extent; they play a part mostly in the financing of long-term projects. Due to the aforementioned lack of publicity and of mechanisms of control and protection, the issuance of bonds or of the so-called participation certificates poses difficulties to associations.

Altogether we can state that the registered association will continue to function as one of the most significant legal forms of professional football in Germany as well, in spite of the fact that the law of associations is far from providing satisfactory conditions for the operations of football clubs carrying out modern business activity. Thus, it is no wonder that in Germany there appears a strong inclination towards the transformation from the form of association into the form of incorporated firm. This does not mean that the clubs (mainly the amateur and mass sports clubs) will turn away from the form of association. Professional football is such an area. The best example for an efficiently operated association is VfB Stuttgart (Figure 1).



Figure 1. Organizational scheme VfB Stuttgart

Source: V. Schmid, Unternehmensführung im Profifußball, Berlin 2004

Proprietary association: VfB Stuttgart Registered Association. The task of VfB Stuttgart Holding LLC is the development of alternative solutions for financing, e.g. the involvement of investors functioning as dormant partners. The task of VfB Stuttgart Marketing LLC is operating the professional football division, and as a compensation it receives an agent's commission from the association, in a manner basically similar to an external agent selling external rights. The task of VfB Shop Sales and Advertisement LLC is organisation and arrangement of merchandising. The task of VfB Property GmbH & Co. KG [limited partnership with an LLC as general partner] is the management of leaseholds and real estate for the association. The GbR (civil law association) is a simple form of undertaking wide-spread in Germany, based on a specific contract of agency.

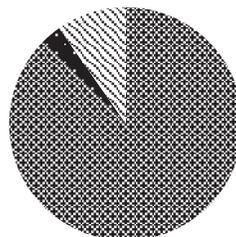
The traditional form of association as a basic model of management may also be successful in professional football, but it is true that this is realised also thanks to Stuttgart's main sponsor, its exclusive partners and its team partners. The list is deserving of attention: Gazi, Mercedes Benz, Puma EnBW, Kronbacher, BW Bank, Breuninger, Kärcher, and Coca Cola. Therefore, is no wonder that VfB Stuttgart was and is very successful.

2.2. Incorporated firms

However, the real concept of an incorporated firm of football refers more to the outsourcing of football undertakings and of the fields neighbouring football into incorporated firms, or, respectively, to the transformation thereof into incorporated firms. The surviving association operates as a so-called parent association, and it disposes usually over the majority of votes in the incorporated football firm.

2.2.1 Share companies

Share companies are advantageous, if there is a great need for capital and if it is possible to involve further financiers into joint financing. However, in the course of the acquisition of capital, the majority of votes is in each case an indispensable requirement for the parent association, which can be secured through the issuance of registered shares and/or preference shares with restricted transferability (Nagy, Z. I., 2011). In the first case the permission of the management of a share company is also required for the acquisition of shares, while the latter ones do not secure any votes for the shareholders, and their issuance may not exceed the sum of the shares already issued (ordinary shares and shares with restricted transferability). In this way the formation of an undesirable majority may be prevented; but obviously, the involvement of capital will also be narrowed due to the restrictions, since in the event of contribution of further capital required due to the increase of capital or losses the parent association may incur obligations of payment in order to secure the majority, because the licence rights are possessed in this case by the parent association. The League Association strictly controls compliance with each regulation. FC Bayern Munich has succeeded in setting up a successful company limited by shares. Successful Football Club: Bayern München Share Company (Figure 2).



■ FC Bayern München e. V. ■ Audi AG ▨ Adidas AG

Figure 2. Ownership structure

Source: FC Bayern München WEB site

According to the pre-agreed plans, until July 2011 Audi AG increased its share up to 9.09% in three phases. As a result, the company approached the existing share of Adidas AG. The association has retained shares making up a quota of 81.2%, while the amount of the subscribed capital has risen to EUR 27.5 million. The company limited by shares is

the sole owner of the Allianz Arena München Stadion GmbH, which constructed and now operates the stadium. Until 2006, this limited liability company was 50% owned by TSV 1860 München, which then – due to its financial difficulties – sold its share to FC Bayern München AG in consideration of EUR 11 million.

2.2.2. Limited liability companies

The legal form of limited liability companies is highly popular in other sports, such as in the field of handball and ice-hockey, too. Limited liability companies tend to take various forms in football.

One of these forms represents a football limited liability company where all the businesses associated with football are included, and that is generally operated as a subsidiary of a parent company otherwise not involved in football. The license is held by the parent company. In this case, it is the majority owner, the parent association that determines the foundation of the limited liability company. This solution in fact means the establishment of a subsidiary limited liability company. An example here can be Borussia Mönchengladbach.

The other form of limited liability companies is the entity holding the right to participate in the championships, where management by the parent company is also in place, but in this case the entire license comes to the possession of the subsidiary. Nevertheless, all the other areas (marketing, merchandising, etc.) remain with the parent company, or they are outsourced to further entities. An advantage of this limited liability company form is that the license has to be secured by the company that uses it, and therefore it is not the entire parent company that needs to comply with the strict licensing requirements, as on the whole the parent company may be in a much worse situation than the limited liability company focusing solely on professional football.

The third situation is when the limited liability company plays an essential role within the group, and agrees to apply a broad range of tools for capital acquisition, while it would prevent external investors from having any weighty word in management.

From among these various solutions, in Hungary it would be expedient to frame such a limited liability company representing a real pool of capital resources that is a part of a business group, which facilitates access to capital without causing problems in management. In this case, the group in fact operates a limited partnership via the limited liability company where any investor can enter in the position of the limited partner, without causing any change in management. Towards this end, Hungary should implement the necessary legal changes, and in addition the attitudes and management practices of clubs need to be modified, as well.

2. 2. 3. Limited Partnership with Restricted Liability of Partners

This is a company having legal personality, in which, as is well-known, at least one of the partners (the general partner) must bear unlimited and joint and several liability vis-à-vis the creditors. The other owners, who have otherwise interest in the registered capital embodied by the share capital, need not warrant for the liabilities of the company (dormant partners). This is an intermediate legal form that shows the marks of a share company and the personal liability existing in the case of limited partnerships, where the general partner provides for the management of the undertaking. The supervisory board elected by the general meeting of the dormant partners supervises the work of the general partner acting with personal liability, on the one hand, and executes the resolutions of the general meeting, on the other hand, which includes the dormant partners' declaration of acceptance and agreement in the case of more important decisions. Within the scope of legal forms such solutions are interesting for football clubs, since they are vested with the

marks of restricted liability covering the general partner of a limited partnership, and at the same time they open a lot of alternative opportunities for finding equity. This limited partnership with restricted shareholders' liability also exists in the case of the forms of GmbH & Co. KG. (Figure 3)

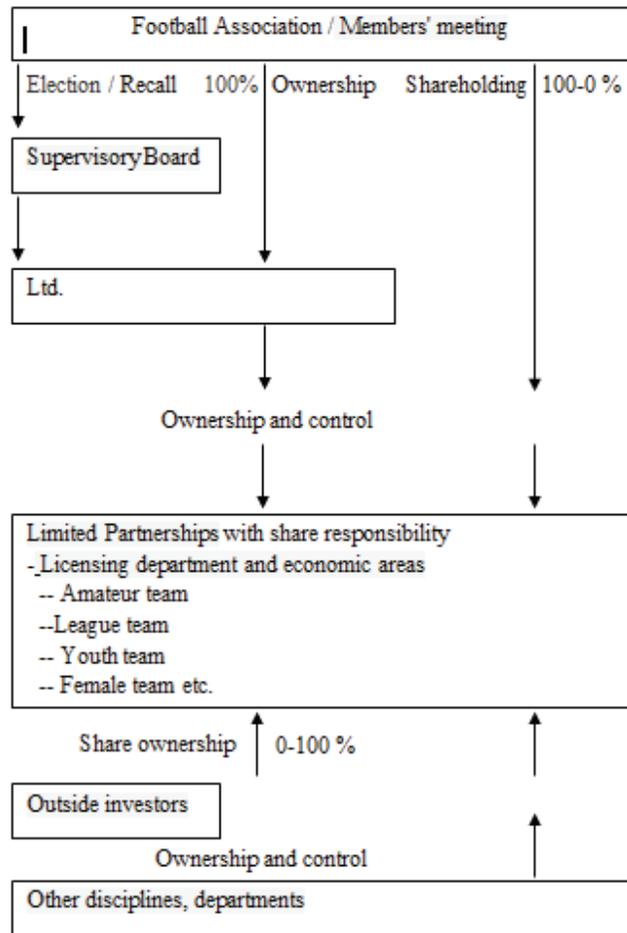


Figure 3. Organizational Scheme “ Limited Partnerships with share responsibilities”

Source: A. Dworak : Finanzierung für Fußballunternehmen

In the case of the legal form operating with the limited liability of a limited partnership, the parent company as general partner may not restrict its personal liability. Thus the association should act simultaneously as general partner and dormant partner if it wishes to retain the aforementioned limited partnership directly as its own property, which is not at all permitted from the legal aspect. Therefore, it is required to insert a limited liability company between the existing association and the limited partnership. This subsidiary LLC is a personally answerable general partner, and it functions as managing director at the same time. The shareholders as dormant partners may consist of the parent company itself and of external investors. This has the advantage, on the one hand, that the parent company is secured by an LLC of limited liability, and, on the other hand, that the possibility exists to increase the dormant partners' share in the limited partnership up to almost 100%, without violating the rules of the League Association relating to majority

share. In Germany, 10 GmbH & Co. KG companies were operating in 2009 in the Licence Leagues (League 1 and 2). See table 1.

Should a football GmbH & Co. KG be floated to the stock exchange, it must tolerate a significant handicap as opposed to the companies operating in the form of share company, if it has issued also preference shares without voting right. It is a further problem that the possibility of controlling efficiently the leading bodies of an incorporated firm is missing also in the form of football GmbH & Co. KG for the potential investors; they must satisfy themselves with the role of dormant partner if they are not members of the parent association. Unfortunately, this may repel potential investors or, at least, it may be taken into account as a significant negative factor upon the valuation of the participation. It is very important in this solution that separation between the rights of general partners and dormant partners should be complied with strictly in practice. It occurs that potential investors frequently link their possible commitments to being involved into the direction and operation of the undertaking, which will of course appear understandable from the aspect of taking care for the safety of investment. In the event of a football GmbH & Co. KG, any influence by investors may only be implemented within certain limits. By the way, this is shown by the objection made by the League Association against an investor agreement entered into by TSV 1860 München in the 2009 spring season. The investor agreement contained decisions in respect of persons as conditions for contract, which would have for consequence illicit influence on the side of dormant partner, and/or it would have secured the right of veto in respect of the decisions of the associations.

We can finally state that the outsourcing of significant branches of a football undertaking into the form of an incorporated firm should be deemed as a considerable step forward in comparison with the deficient regulations of the operations of associations, regarding the economic professionalism of football clubs, partially from the side of commercial law and partially from the side of shareholding law. Through the introduction of organizational and legal structures that are necessary for the football clubs to be considered professional, there are further positive effects generated for football companies: for example, the football undertaking has to reevaluate its assets due to the transformation, which usually has a positive effect on the proportion of equity. This is still complemented by the fact that in the event of incorporation, the equity will increase through the accumulation of profits based on the compulsory regulations of the application of profits. Incorporation allows external investors to get involved in football undertakings, which may be implemented through investment into the respective business quotas of an LLC or a share company or a limited partnership. Here we must stress above all the obligation of publicity and information which makes the incorporated firms transparent for the potential investors of debt capital, and allow for reliable credit ratings and risk assessments. Furthermore, it is also advantageous that incorporated football firms operate similarly to incorporated firms functioning in other fields, from the point of view of the protection of creditors. Finally, a large palette of alternative financing is available for incorporated firms which are not available in the event of the original legal form and organizational structure of associations. Nevertheless, it should be underlined that in the event of the use of the form of the incorporated football firm, it is about the transformation and change of the organizational unit of execution and not about a total abandonment of the form of association. The form of association will continue to be the main form for football undertakings and a fundamental solution for the procurement of capital. Due to the reasons above, professional football is partially an exemption in this respect.

3. Organizational requirements for professional football entities in Switzerland

In Switzerland, the Football League stipulates rigorous reporting obligations, and in addition it prescribes the structures and mandatory statuses for the operation of a Super League team. Relying on these foundations, the right-minded Calvinistic Puritanism operates all the clubs in highly structured forms. Therefore, I would recommend the introduction of the Swiss organizational requirements in OTP Bank League, as well.

Swiss mandatory minimum organizational requirements for the teams of the Super League:

1 person, UEFA-licensed trainer

1 person, assistant trainer with Super League license

1 person, goalkeeper trainer with Super League license

1 person, fitness trainer

1 person, managing director and administration manager (the same person can work in both functions)

1 person, finance manager

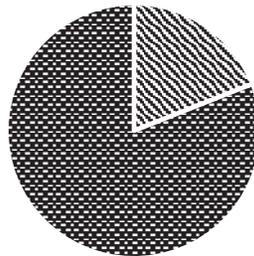
1 person, marketing manager

1 person, media manager

Recommended: 1 person, security expert, possible cooperation with the representatives of supporters.

In Switzerland, any omission of the monthly reports or non-fulfillment of payment obligations would promptly entail a fine of CHF 10,000. In response to further omissions, negotiations are commenced in relation to the withdrawal of the license.

4. Teams of the Hungarian OTP Bank League by the legal forms of business and organizational forms



▨ share company ▩ limited liability company

Figure 4. Teams of the OTP Bank League by the legal forms of business and organizational forms

Source: Own research

At first sight, it can be claimed that there is nothing wrong with the clubs participating in the OTP Bank League in terms of their restructuring into capital companies, as in Hungary the formal conversion of the first-league clubs into capital companies has actually been implemented (Figure 4). In Switzerland, this restructuring move has been executed on the basis of the Association's mandatory requirement. In contrast, as it has been pointed out above, the German first league still has a number of clubs operating in the form of associations. Restructuring into capital companies has also been implemented in the Greek first league on a mandatory basis.

Nonetheless, another issue is how much in Hungary the preferred form of capital companies ensures additional capital resources. For instance, a club achieving successes both in the sport and economic fields currently operates as a private company limited by shares, with one private person being its sole owner. Here, the question is how much the form of a one-man company serves the ends of capital acquisition, as the amount of the capital subscribed by the sole owner is only HUF 49 million. On the other hand, one would find a limited liability company with 2 legal entity partners and registered capital of more than one billion Hungarian Forints. The individual situations can be highly varied. In view of the unfortunate, yet typical lack of capital resources that is a dominant feature of domestic football in spite of the corporate income tax allowances and preferential aids, I would propose the establishment of real capital companies, especially the operation of groups described above (Borussia Dortmund). Similarly in Hungarian football, such capital companies have to be established that are able to attract additional, fresh capital resources. A large proportion of business processes – primarily in the field of ticket sales and player trading transactions – remain outside the balance sheets. Considerable problems are caused by kickbacks provided on corporate income tax allowances and other aids, as well as other uncertain and invisible incomes and expenses. From several respects, the government would be interested in elevating 3–4 clubs in Hungary to make them capable of outstanding and high-standard sporting and economic performance, which would have economic, budgetary benefits – not to mention the social implications that cannot be directly assessed with economic indicators. The balance sheet figures of DVSC Futbalszervező Zrt. reflect significantly positive results for the past four years, and moreover on the 2009 profit the owners were paid dividends in an amount of HUF 800 million, while a decision was made on the establishment of the training center of the Debrecen Football Academy, an investment of HUF 800 million (Bács – Szilágyi, 2012).

5. Establishment of controlling organizational units at the football enterprises

In Germany, the teams of League 1–3 were involved in a questionnaire survey concerning the application of controlling. 53 associations and capital companies responded to the questionnaires, which indicated an extremely positive approach to the effort (Table 2).

Table 2. Application of controlling at German football clubs

Time of application of controlling	Distribution (%)
1-5 years	58,5
5-10 years	13,7
more than 10 years	17,1
no answer	10,3

Source: Controlling im Profifußball, Roßbach, Th:2011, p. 43

It is an even more interesting question what means of controlling the clubs of League 1–3 use in Germany – some of the clubs do apply more than one of these tools. Applied controlling devices and methods in League 1–3. of Germany: Benchmarking (27,27%), Comparison of the planned and factual figures (12,12%), Balanced Scorecard (9,09%), Obtainment of liquidity (6,06%), Rolling forecasts (3,03%), Scenario procedures (3,03%), Profit and loss analysis (3,03%), Detailed budgeting (3,03%), Target cost analysis (3,03%), Quarterly and monthly reports (3,03%), Addison controlling tool (3,03%), Own analyses (3,03%), Deviation analyses (3,03%), ABC analysis (3,03%), Business plan (3,03%), Others(3,03%) (Roßbach, 2011).

An important question is what controlling targets, meaning what the focal point of controlling is at football enterprises. The subject-matter of controlling in League 1–2 of Germany: sponsorship (96,6%), marketing (89,7%), (payments (89,7%), operations (89,7%), media rights (82,8%), stadium use (79,3%), merchandizing (79,3%), player transfers (69%) (Roßbach, 2011).

Considering that in Hungary many first-league clubs prepare only annual budgets to serve as the basis of economic management, one could claim that it is not only goal scoring and excellent defense where Hungary has gaps to close nowadays, but also in the field of the application of developed methods of market economy. Long-term successes can be achieved only with a firmly grounded, stable organizational and financial background (Borbély, 2008).

6. Conclusion

As a summary, it is to be pointed out that financial foresight and controlling constitute such indispensable subsystems for football associations and enterprises that are responsible for the alignment, coordination of various other processes and subsystems. With reliance on the set of indicators of controlling, a higher level of transparency is put in place to support the supply of information and managerial decisions (Tarnóczy-Fenyves, 2010). As a result, environmental changes become recognizable in their early stages, and therefore the necessary measures can be taken sooner, which then allows active management. Furthermore, controlling promotes the continuous review and correction of own activities. For this reason, it is very much expedient to set up a planned, documented and consciously implemented system of controlling both in the operative and strategic fields. The above-described tools that have already been partly applied by the German clubs – such as the Balanced Scorecard – are excellently suitable for helping adequate responses to future challenges. These means of controlling can be combined with each other, and therefore the Balanced Scorecard system can be structured together with a risk management system and detailed budgeting (Haas, 2006).

Controlling has an increasingly important role in the operation of foreign football clubs, though its potentials still have not been exploited optimally even abroad, in the major football nations. The processes will be accelerated by UEFA's new licensing regulations posing strict requirements and attributing an even more significant role to financial stability (financial fair play). Football is becoming more and more professional and business-oriented, which requires the application of modern management systems. The application of controlling is spreading, which improves the effectiveness of the business areas. This relatively new, gradually strengthening aspect, i.e. the economic side of football seems to be extremely important for the clubs and the federations alike via the issuance of licenses. Additional stakeholders include football-related market vendors, agents, owners, as well as shareholding companies, creditors and even auditors. Abroad, in the major nations of football the current focal point of debate is the organizational forms of controlling systems. Experts deem it to be expedient to operate independent controlling departments organized in the light of the individual controlling tasks at the football clubs.

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