

Victory or Profit Maximisation?

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Aujourd'hui, la discussion sur la crise financière dans le football italien s'inscrit dans un contexte où le revenu total de l'industrie italienne du football a augmenté de manière spectaculaire. Pourtant, en examinant de plus près les causes de la crise du football italien, on doit admettre qu'elle n'est pas liée à une baisse de revenus.

There is currently much talk of crisis in Italian football; even though the topic of financial crisis has attracted continuous attention among practitioners over the last decade, nevertheless very little documentary research has been carried out. In this context it is important not only to highlight the different causes and direct or indirect effects of such a crisis on Italian football clubs, but also to consider whether or not it is relevant to talk about ethics.

The financial climate in Italian football

It is only recently that football in Italy has been considered as a consumer commodity: in 1996, the Italian Parliament passed law no. 586, which introduced for the first time the notion of profit-making for football company shareholders.

Until then, people who still believed in classic economic thinking considered that working in leisure activities such as football was unproductive. From 1996 onwards, clubs' income has seen a steady upward trend due to huge amounts of money paid by private television companies to acquire the rights to broadcast football matches (in Italy football clubs can negotiate individual deals with broadcasters). This has led economists to consider the sport as a stand-

ard commodity, meaning the kind of product for which demand increases as income rises.

Nowadays, the talk of financial crisis seems to be set against a period in which the overall income of Italian football industry has risen dramatically, at least in *Serie A*. Thus, the Italian football crisis is not a crisis due to a drop in income. Nevertheless, the budgets of Italian football clubs bleed red ink, in the sense that almost every company operates at a loss, with their overall financial statements showing a gradual increase in labour costs and tax debts starting in 1998 up to the present day.

In a standard industry, an exponential growth in revenue would have been translated into increased profitability. However, this did not happen in the football industry. The objective of achieving sporting success prompts clubs to ask for bank loans in order to get advance money on broadcasting rights and spend it on the players' market and related wages. The lack of a financial policy covering strategic club investments for generating other sources of revenue led to disastrous consequences in a few short years: FC Fiorentina and SS Napoli went bankrupt as did the majority of SS Lazio and FC Parma shareholders. One of the main reasons why football companies are facing such an acute financial crisis is

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Une des principales raisons pour lesquelles les clubs de football font face à une crise financière aussi grave tient probablement à ce que Rosen et Sanderson (2001) ont appelé une « course aux armements ».

Lors du championnat italien (où la victoire est visée plutôt que le profit, comme dans les championnats américains), même les clubs les plus pauvres essaient de rivaliser dans la « course aux armements ». Ils sont disposés à investir toutes leurs ressources dans l'acquisition de joueurs afin de renforcer leur équipe, parce qu'ils savent que dans la philosophie du football, il est impératif de « gagner à tout prix ». En effet, les chaînes de diffusion sont prêtes à dépenser d'énormes sommes d'argent pour les droits des équipes les plus importantes.

probably due to what Rosen & Sanderson (2001) called an *arms race*. According to Ascari & Gagnepain (2003), who have investigated this concept in the Spanish football industry, 'such a race consists in enrolling the best players available so that each club may be able to enhance its relative position with respect to its competitors, which are pushed to follow suit'.

Winning at any price

Obviously, a football league needs different competitors to keep functioning, both rich and poor clubs. In the Italian championship even the poorest clubs try to compete in the arms race. They are willing to invest all their resources on purchasing players in order to strengthen their teams, because they know that in football philosophy it is imperative 'to win at any price'. And broadcasters are willing to pay huge amounts for the rights of the most important teams. Such a behaviour can be called 'victory seeking or maximising' in contrast to 'profit maximising behaviour', typical of the American championships.

Making broadcasting revenues their primary source of growth over the last decade (Deloitte & Touche, 2006, see in this issue pp. 90-91) has led football companies, on the one hand, to miss out on the chance to enhance their revenues from matches and commercial sources (as it happens in the United Kingdom) and, on the other hand, to move in a 'virtuous circle', where sporting results

are directly connected to increase in revenue, in investments in purchasing players and in salaries. This trend has recently registered a decrease, as private television companies are no longer willing to invest excessive amounts of money in football. As a consequence, various clubs now risk going bankrupt due to the mounting burden of debts with banks, fiscal authorities and players.

Creative accounting

The matter of accounting manipulations has been mainly investigated in English-speaking countries such as the United States, the United Kingdom, Canada and Australia, where this practice is widely adopted. These countries are particularly prone to such manipulations due to the relative freedom of choice provided by their accounting systems. Continental European countries such as Italy, on the other hand, have less flexible accounting rules, which would suggest that accountants in these countries are less likely to carry out such manipulations. Nevertheless, cases of accounting manipulations do exist, and some evidence of such practices has come to light on investigation of Italian football companies' financial statements.

Various studies have examined the issues surrounding the reasons behind creative accounting practices. The primary motivation for a company's executives seems to be the existence of bonus incentive schemes. Management may be more inclined to turn to such unethical manipu-

Dans les clubs de football italiens, cotés et non cotés, les comptes sont souvent manipulés dans le seul but de minimiser les pertes dans le rapport financier annuel. Sans l'application de cette technique, la plupart de ces clubs de football auraient fait faillite.

Au chapitre de la micro-manipulation, on peut facilement citer les abus du système de transfert que certains clubs ont systématiquement pratiqués pendant les dix dernières années, en s'impliquant souvent dans des transferts réciproques pour des montants surévalués, comme un moyen d'augmenter la valeur des actifs au bilan.

Différents cas d'aide financière de la part du gouvernement italien peuvent être inclus dans la catégorie des manipulations de comptes et, en particulier, sont des exemples de macro-manipulation.

lations if these incentives are based on a company's profits. Another important motivation, typical of listed companies, is the influence that a healthier financial situation as reported by accountants can have on share prices. When considering Italian football companies, both listed and non-listed, it is important to highlight that the reasons for creative accounting practices are really much simpler: accountants are often forced to manipulate the accounts just to reduce losses reported in the annual financial statement.

Without these proceedings most of the clubs would have gone bankrupt at least since 1996, when the law on profit making in football has been introduced. Thus, to put it simply, creative accounting allowed football clubs to be regularly enrolled in national championships.

Micro- and macro-manipulation

In terms of creative accounting, a distinction should be made between two main categories, micro- and macro-manipulation (Levante, 2005). Micro-manipulation concerns for example the abuse of the transfers system that some clubs have systematically practiced over the last decade, often engaging in reciprocal transfers at inflated fees as a way of boosting asset value on the balance sheets (see in this issue the article of R. Poli, page 40): this is a technique known as *false surplus value*. It is a fictitious money transfer that occurs when two teams decide

to exchange two or more players on the summer market. The clubs sell their players at the same price without any real transfer of money, simply by increasing the players' value: the seller registers the sale amount in the profit and loss account before the end of the financial year (30th of June for football clubs), producing a higher profit. The buyer registers the purchase amount in the following period's profit and loss account, declaring that the player's contract will come into effect from the following football season, which usually starts on 1st of July.

The purchasing club can even amortize purchase costs by spreading them over a period that lasts as long as the contract. Football clubs have thus worsened their financial situation in the medium- and long-term, amortizing costs that are much higher than the real value of players.

When we go on to consider macro-manipulation, we should emphasise that football plays an important role in Italy due to its capacity to draw large crowds. Furthermore, it has always been considered as a relevant and contributing factor to the country's cultural life. As a consequence, Italian governments have adopted a very flexible approach when dealing with questions regarding football administration. As a result of the recent financial crisis, football companies have in fact benefited greatly from Italian law. The Italian football federation, actively engaged in lobbying government over recent years, is constantly seeking to pre-

La loi « sauve-football », introduite par le gouvernement, a été un moyen de prendre en compte les difficultés financières que les clubs ont rencontrées (et rencontrent toujours), comme conséquence de la valeur majorée de leurs actifs intangibles (les joueurs).

Elle a permis aux clubs de sports :

- 1) de déterminer les pertes de capital qui proviennent de la valeur majorée des droits sur les performances des joueurs sur une base d'évaluation d'expert et d'inclure ces pertes à l'actif du bilan comme s'il s'agissait d'un gain ;
- 2) de prolonger la période pendant laquelle l'actif intangible du joueur lié par contrat peut être amorti, de la durée du contrat jusqu'à dix ans.

vent change or obtain aid. Different forms of financial aid granted by the Italian government may be included under the umbrella of accounting manipulations and, in particular, as macro-manipulation.

‘Legge salva-calcio’: the government aid

The ‘save-soccer’ law (no. 27/2003) was introduced by the government in response to pressure from clubs and the league. It was a way of dealing with the financial difficulties that clubs were (and still are) in, as a consequence of the inflated value of their intangible assets (i.e. players). This law represented the most significant financial aid provided by the Italian government to football clubs.

Firstly, it allowed sport clubs to determine the capital losses arising from an inflated value of rights for players’ performances on the basis of expert valuation and to enter these losses as an intangible asset on the balance sheet; as if people who bought shares for 1000 units, after a 90% fall in share prices, could consider that they still have 100 in shares and 900 in intangible assets.

Secondly, it also permitted companies to extend the period over which the intangible assets of binding player contracts could be amortized, from the contract duration to ten (yearly) equal amortization charges. The law puts Italian clubs in conflict with the European Commission (EC) which states that it does not comply with the Fourth (78/660/EEC) and Seventh (83/349/EEC) so-called Ac-

counting Directives: on the amortisation of intangible assets (i.e. rights for players’ performances) and on the departure from the *true and fair view* concept. The former states that athletes’ contracts, which have to be treated as intangible assets, must be written off during their economic life, which generally corresponds to the duration of the contracts. The latter specifies that the value attributed to fixed assets must be entirely adjusted downwards to their real value on the annual balance sheet if the reduction is expected to be permanent. The EC recently obliged the Italian government to cancel the effects of the ‘save-soccer’ law. Football clubs will be requested to account entirely for the loss of value of players’ performances in the profit and loss account by the end of football season 2006/2007 (i.e. by 30th of June 2007).

What is perhaps of greater concern is that those clubs that took advantage of the law may have gained a short-term competitive advantage, as this law allowed them to pay inflated prices and wages for players, beyond the level that would have been possible if their true financial position had been reported.

Nevertheless, it is glaringly obvious that, as a result of the above-mentioned developments, by 30th of June 2007, every single club in Italy will reduce its net result by the remaining six (yearly) amortization charges left over from the devaluation of players performances’ initiated in 2003, while at the same time accounting for them in the losses column of

Cette loi entraîne un conflit entre les clubs italiens et la Commission européenne, qui la déclare incompatible avec deux directives du Conseil. La Commission européenne a récemment obligé le gouvernement italien d'annuler les effets de la loi « sauve-football ».

Les personnes concernées par le climat dans le football italien savent pertinemment qu'avant la fin de la saison actuelle de football le gouvernement adoptera une loi ou un décret dans le but d'atténuer les effets financiers de la décision de la Commission européenne au sujet de la loi « sauve-football ».

their financial statement. And taking into consideration that the four most important teams (AC Milan, AS Roma, SS Lazio and FC Inter) benefited from approximately 900 million euros thanks to the 'save-soccer' law, we may conclude that almost every company will have to choose between three possible alternatives, in accordance with the Italian civil code and in order to avoid bankruptcy: an injection of capital, the transformation of the company's status, or voluntary liquidation.

It is worth mentioning that even in Spain there have been cases of suspected 'State aid', scrutinized by the EU Commission. In 2002, the *Comunidad Autonoma de Madrid* granted Real Madrid FC the right to build and sell apartments and shops in a 'green' area, transformed into a residential area thanks to a change in urban planning. The EU Commissioner Mario Monti (26.09.2002 and 29.11.2002), replying to questions put by Pere Esteve, an EU Parliament member, said that he did not find any evidence of 'State aid' because there wasn't any 'direct' transfer of public funds.

Football and politics

Those familiar with the Italian football scene know perfectly well that before the end of the present football season the Government, in tacit agreement with the Italian football federation, will adopt a law or a decree in order to lessen the financial effects of the EC decision on the 'save-soccer' law. This tactic has been

frequently observed in recent years. As a consequence of this disease affecting football governance, Prof. Victor Uckmar (the president of Convisoc from 1993 to 2002, a watchdog committee for football clubs and part of the federation), made the following observations: firstly, before the quotation of SS Lazio, which was the first club to be listed on the Stock Exchange, he advised that the information prospectus include the sentence 'not recommended for widows and orphans' (*Gazzetta dello Sport*, 13 August 2003); he also compared the financial crisis facing Italian football to the Enron case, stating that while the latter was the result of dishonesty, the former was probably due to managerial incompetence and self-indulgent passion (*L'Unità*, 22 August 2002). To sum up, we can state that politics is an integral aspect of modern football in Italy. One key reason why politicians intervene so directly in this sport is the passion that Italians feel for football and their engagement with the sport. Another reason for political involvement is the nature of football club ownership in Italy: several club owners are powerful figures in politics or in business and such prominent individuals, and/or their families or other close associates, continue to exert significant influence over decision-making and policy.

It seems evident that Italian football companies are struggling with an acute financial crisis, mostly because they have not adopted an efficient management plan, yet are trying

La politique fait partie intégrale du football moderne en Italie, à cause d'une part de la passion et de l'engagement que les Italiens manifestent envers le football, et d'autre part du fait que plusieurs propriétaires de clubs sont des personnes influentes dans le monde politique et des affaires, et que ces gens importants, et/ou leurs familles et autres proches associés, continuent d'exercer une influence significative sur les prises de décision et les programmes de gouvernement.

Il semble évident que les clubs de football italiens sont confrontés à une crise financière aiguë, principalement parce qu'ils n'ont pas adopté un plan de gestion efficace (qui devrait être capable de diversifier les revenus et d'adopter le point de vue de ceux qui poursuivent le profit plutôt que les victoires sur le terrain).

to compete more effectively on the market. This lack of good management, which should be able to diversify revenue sources and adopt the approach of profit maximizers rather than victory maximizers, marks the difference between English and Italian football clubs even now. Furthermore, the unethical use of creative accounting practices, as described above, has only worsened the dire financial situation of Italian clubs.

Ethical issues

We can suggest a number of recommendations to help football clubs wake up from the nightmare of bankruptcy: revenue sharing, salary capping, diversifying revenue, and adopting the American model of closed competition. This model, currently in force in American major leagues, prevents excessive expenditure on the players' market by smaller teams; it is after all the spectre of relegation that currently leads football clubs to spend a considerable amount of money on the *arms race* in order to perform well in championships. But the burning question that arises is: to what extent is it possible to discuss ethics in modern football, in the light of creative accounting and the concept of Corporate Social Responsibility (CSR)?

Creative accounting and CSR share a common system of values that underpin the preparation of financial statements: the *respect for the law* and the *immorality* concept. The *respect for the law* is fundamental both for its social value and for enforce-

ment tool. For creative accounting practices, it is possible to say that the better procedures are designed, the more it can be presumed that they will be respected. Thus, a possible solution to accounting manipulations may be to enhance the enforcement of regulations by providing strict criminal sanctions both to those who apply accounting rules and those who must ensure respect for the law.

The *immorality* concept is applicable strictly on a personal level, to people preparing financial statements. Those who try to code the financial statements are moral agents. Consequently, an ethical question arises: is it always an unethical practice for practitioners to present biased accounts, or are they justified because, in the business context, they have the sensibility of the *homo oeconomicus*? On the one hand there are those who, like Lonergan (1992), have stated that in the business community it is no longer possible to talk about morality because, although the capitalist system leads to positive results, there is nevertheless a dramatic difference between those who want to contribute to the general well-being and those who work only for personal wealth. On the other hand, some authors, like Solomon (1993), have pointed out that 'we can no longer accept the moral idea that business is business' because business decisions are not exempt from moral considerations.

CSR means attempting to establish higher social standards than the let-

La question qui se pose de manière brûlante est la suivante : jusqu'à quel point est-il possible de s'occuper d'éthique dans le football moderne, sans traiter la question du *creative accounting* et du concept de responsabilité sociale de l'entreprise ?

Adopter un « bilan social » - un document grâce auquel les parties prenantes peuvent connaître les résultats d'une évaluation objective de l'impact social de l'activité financière des entreprises - pourrait être la première étape vers l'objectif d'établir une communication éthique entre les sociétés et les parties prenantes.

De ce point de vue, il n'y a aujourd'hui en Italie aucun club de football professionnel qui présente formellement un bilan social à l'ensemble des parties prenantes.

ter of the law. Adopting a 'social balance sheet' may be seen as the first step towards establishing ethical communication between companies and stakeholders.

A first step: the social balance sheet

In other words, the 'social balance sheet' is a legal document informing stakeholders of the results produced by an objective evaluation of the social impact of companies' financial activity. While the civil code makes compulsory the production of an annual report with 'no principles, a few facts and a lot of figures', a social balance sheet has 'a lot of facts, some principles and a few figures'.

Furthermore, presenting a social balance sheet means accurately and clearly letting stakeholders know in what manner a company generates and invests profits. For example, a company could take on new management with a successful university education. This could represent higher costs for companies, but at the same time this strategy represents an excellent educational and job opportunity for people living in the area. Italian football clubs could improve in this field: almost every professional club has taken on highly paid former football players in its management team, with neither educational background nor professional experience. Another example which could be covered by the social balance sheet is the creation of social funds for establishing free football academies in order to take children off the streets. In this

context, there are currently no professional football clubs in Italy which formally present a social balance sheet to stakeholders: a first step in this direction is being taken by a private company, Durante and McKenzie, which is trying to formally adopt a social balance sheet for Chieti football club, relegated to a lower league last season.

Adopting ethical standards

The ethical standard SA8000 was established in 1997 and recently updated in 2001 by the SAI (Social Accountability International) with the main objective of fighting against unequal job conditions in companies and their commercial partners: it could be interesting to investigate the possible effects of its adoption by football companies. As part of the fight against child labour, a company adopting this standard would not be allowed to establish partnerships with companies using child labour: the adoption of the standard by a leading club such as AC Milan, FC Inter or AS Roma would surely lead to change even in companies producing sports equipment (during the 2006 World Cup in Germany, the NGO Oxfam produced a report on ethical standards in twelve companies operating in the sports equipment sector). Another social-ethical standard (AA1000) was defined by ISEA (Institute of Social and Ethical Accountability) starting in 1999. Its merit consists in the provision of an external examination by an independent

Pour le moment, renforcer les codes éthiques et adopter des standards éthiques permettrait probablement à la gestion des clubs de football d'être moins dépendante du pouvoir politique et de leur comptabilité créatrice. Ensuite, il sera nécessaire, pour avoir des résultats, de mener des investigations supplémentaires.

and qualified organization. AA100 represents the highest expression of social responsibility and pays particular attention to the way in which profits are generated. In line with this standard, it would be interesting to see what results would be produced by putting all players' wages entirely on a contract basis and constantly looking after and monitoring their health: these could represent two key factors obliging football companies to pay taxes and avoid transfers at inflated fees (information on the health

history of players prevents high purchase costs in the case of players with previous long-term injuries or found to fail drugs tests).

Given the current situation, strengthening ethical codes and adopting ethical standards, as in the examples mentioned above, will probably lead football clubs' management to be less in connivance with the political authorities and less liable to indulge in creative accounting. Further research will then be necessary to provide results. •

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