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# Insolvency events among English football clubs

## Keywords

football  
soccer  
finance  
insolvency  
Administration  
Chapter 11  
soft debt

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Peer reviewed

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## Abstract

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This paper identifies five types of insolvency in English football: clubs that have failed to cope with relegation; failed to pay monies due to the UK government; seen 'soft debts' become 'hard debts'; lost the ownership of their stadium; or have been 'repeat offenders'. As the second of a three-phase research project, the paper concludes with an indication of the final phase research and implications of the findings so far for other professional sports.

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## Executive summary

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The seeking of protection from creditors by turning to the courts is perfectly legal, but for a conventional business would normally be 'clutching at a last straw'. Increasingly since 1986, with the introduction of new insolvency legislation, it has been a regular feature of business activity in English football. Among members of Football League Division 1 and Division 2 for the 2008-09 season, more than half have suffered an insolvency event in recent years. This paper reports on the second phase of a major research project into insolvency events in English

football clubs, both professional and semi-professional. Through a review of the development and commercialisation of football, the difficulty of applying theory developed for conventional profit-seeking sectors is identified, as is the need for a methodology that incorporates both aggregative quantitative approaches and qualitative approaches that recognise the uniqueness of each club.

From the findings of both the first phase of the project, reported initially as Beech, Horsman and Magraw (2008), and the more intensive second



phase, a series of five types of insolvency are identified: clubs that have failed to cope with relegation; clubs that have failed to pay monies due to the UK government (in the form of taxes, National Insurance contributions etc); clubs that have seen 'soft debts' become 'hard debts'; clubs that have lost the ownership of their stadium; and the 'repeat offenders'.

The paper concludes with an indication of the lines of research to be undertaken in the third and final phase of the wider research project, and an indication of the implications of the research findings so far for other professional sports.

### Introduction

Facing financial difficulty is not a problem unique to English football (i.e. Association Football) clubs. The scale at which English football clubs now enter Administration (court protection from their creditors), however, is now so great that it might almost be seen as a legitimate business tactic. Although clubs have, since 2003, faced points deduction for following this course of action, there are increasing calls for automatic relegation from the chairmen of some clubs, including Graham Turner of Hereford United and Barry Hearn of Leyton Orient. They argue that clubs entering Administration have been 'spending money that they have not got', thereby gaining an unfair advantage. While this is not a universally held view, the fact that it is promulgated is evidence that some see a scandal in the way that many English football clubs are run.

Football clubs facing financial difficulties are certainly not a new aspect of the game. After the Football Association reluctantly allowed professionalisation in 1885, and indeed for some years before this, when illegal payments to supposedly amateur players had become almost the norm in a number of the clubs who would come to dominate the professional game, cashflow (and profit and loss)

became an inevitable issue. Most clubs changed their legal format to become limited companies because the responsibility of maintaining payments to their employees, the now openly professional players, and to suppliers, placed the owners of the clubs in a financially vulnerable position.

In the early days of the professional game the challenge to balance the books, let alone make a profit, proved too much and some clubs were wound up, unable to continue as viable businesses. By the time of the resumption of professional football at the end of the First World War, however, the professional game had shaken down to a reasonable level of stability among the surviving clubs. It was not until 1962, when Accrington Stanley resigned from the Football League because of debts of £63,000 which could not be met, that insolvency reappeared as a real threat to English clubs.

From that time until the mid-1980s, the threat of insolvency remained a rarity. When a financial crisis loomed, clubs tended either to negotiate deals with their creditors or, in the more extreme cases, to liquidate themselves voluntarily, only to reappear promptly with a new or even the same owner<sup>1</sup>. Normally the club, in effect, reappeared with a new variation of its name for the business, typically adding the year in brackets to distance themselves from the club's previous manifestation yet maintain social continuity for the sake of the fans. Examples include Wolverhampton Wanderers (1982), Charlton Athletic (1984), Middlesbrough (1986) and Fulham (1987).

The introduction of the 1986 Insolvency Act, and more recently the 2002 Enterprise Act, provided a less drastic option for any business seeking protection from its creditors. An Administrator could be appointed by the courts with the brief to attempt to rescue the business. While this might often still lead to a change in ownership, it allowed the business to continue trading while the Administrator negotiated with the creditors to find an acceptable level of debt settlement.

<sup>1</sup> Known in the accounting trade as 'phoenixing', this is a process which, despite various safeguards, is still wide open to abuse. The case of the £10 buyout of Rover from BMW by the "Phoenix Consortium" is one of the most notorious, when Rolls Royce ran out of cash in 1971.



Once this had been achieved, the business entered a Companies Voluntary Agreement (CVA) with the creditors, with a legally binding schedule for repayment, and control of the company passed from the Administrator back to the owner(s), whether the original owner(s) or new owner(s) who had bought the business from the Administrator.

In English football today there are two specific consequences of a club 'going into Administration' or a similar insolvency event:

- **Points deduction**  
For most leagues the sanction is the deduction of 10 points, although the Premier League only sanctions a deduction of nine points.
- **Requirement to exit from Administration into a CVA**  
This sanction has been introduced to ensure that an acceptable agreement has been reached with the club's creditors.

The term 'insolvency event' is used so that circumstances similar to entering Administration are also covered. The definition of 'insolvency event' used by the Football League is given in Exhibit 1.

Because the process of entering Administration is designed to help ailing businesses rather than hard-pressed creditors, it is seen as a relatively soft option by football's governing bodies. Perhaps more than in any other business sector, survival of the business, i.e. the club, is seen as highly desirable. That is not to say that totally insolvent clubs have not been allowed to go to the wall, but it is a relatively rare event, with the two most recent cases (Aldershot Town and Maidstone United) occurring as long ago as the early 1990s.

Sanctions were introduced following a spate of insolvencies in 2002 to act as a deterrent to clubs going down this route and potentially failing to meet their debts in full – 'spending money they didn't have'.

Clubs such as Boston United, Leeds United and Leicester City were perceived as having exploited the new rules in order to minimise the impact. If a club

entered Administration when it was already hovering on the brink of relegation, it was desirable from the club's perspective to have the points deducted during the current season; in effect, the deduction would have no impact. New regulations established a 'cut-off point' of the third Thursday in March, after which a club entering Administration would suffer the deduction of points in the following season.

### The literature context

Although the failure of a business is clearly a topic worthy of research, it was not until Argenti (1976) that a formal analysis of business failure was made. He highlighted the importance of distinguishing between the causes of failure and the symptoms of failure. This research project acknowledges that its focus is on the symptoms of failure, and that any causal relationship between symptom and cause will be, at best, tentative.

The project also draws to some extent on the approach supported by Anheier and Moulton, who argue that there are distinct approaches to the study of failure: organisational, political, cognitive and structural (Anheier & Moulton, 1999a, 1999b). This work in the football sector, however, suggests that these approaches are less distinct and are in fact inter-related. Anheier and Moulton further suggest that there are four aspects of failure to be explored: concept, cause, process and implications.

Because it involves a specific legal process, bankruptcy, which in the context of this study includes the liquidation of incorporated bodies, is the most studied form of failure, and many studies have explored organisations in this category. Related terms are 'insolvency', which is best thought of as bankruptcy without the legal process that pushes an organisation over the edge, and 'financial distress', but these states are not sufficiently clear-cut to be easily researched; indeed, such states are normally concealed as far as possible. Because we are conducting a qualitative study and are particularly interested in behaviour at the margins, we are going to use these words precisely and as follows:



### EXHIBIT 1 Definitions of 'insolvency event'

**'INSOLVENCY EVENT' REFERS TO ANY ONE OF THE FOLLOWING:**

- A** A MANAGER, RECEIVER, ADMINISTRATOR, ADMINISTRATIVE RECEIVER, LIQUIDATOR, PROVISIONAL LIQUIDATOR OR SUPERVISOR TO A VOLUNTARY ARRANGEMENT IS APPOINTED IN RESPECT OF A FOOTBALL CLUB OR ANY PART OF ITS UNDERTAKING OR ASSETS
- B** A FOOTBALL CLUB APPLIES FOR AN ADMINISTRATION ORDER (AS DEFINED IN SECTION 10 OF SCHEDULE B (I) OF THE INSOLVENCY ACT 1986) OR AN ADMINISTRATION ORDER IS MADE IN RESPECT OF IT OR IT OTHERWISE ENTERS INTO ADMINISTRATION
- C** A WINDING-UP ORDER IS MADE IN RESPECT OF A FOOTBALL CLUB
- D** A FOOTBALL CLUB ENTERS INTO ANY ARRANGEMENT WITH ITS CREDITORS OR SOME PART OF THEM IN RESPECT OF THE PAYMENT OF ITS DEBTS OR ANY OF THEM AS A COMPANY VOLUNTARY ARRANGEMENT (UNDER THE INSOLVENCY ACT 1986 OR INSOLVENCY ACT 2000) OR A SCHEME OF ARRANGEMENT (UNDER THE COMPANIES ACT 1985)
- E** A FOOTBALL CLUB PASSES A RESOLUTION PURSUANT TO SECTION 84 (I) (C) OF THE INSOLVENCY ACT 1986 TO THE EFFECT THAT IT CANNOT BY REASON OF ITS LIABILITIES CONTINUE ITS BUSINESS AND THAT IT IS ADVISABLE TO WIND UP
- F** A FOOTBALL CLUB CEASES OR FORMS AN INTENTION TO CEASE WHOLLY OR SUBSTANTIALLY TO CARRY ON ITS BUSINESS SAVE FOR THE PURPOSE OR RECONSTRUCTION OR AMALGAMATION OR OTHERWISE IN ACCORDANCE WITH THE SCHEME OF PROPOSALS THAT HAVE PREVIOUSLY BEEN SUBMITTED TO AND APPROVED IN WRITING BY THE BOARD
- G** A FOOTBALL CLUB CONVENES A MEETING OF ITS CREDITORS PURSUANT TO SECTION 95 OR SECTION 98 OF THE INSOLVENCY ACT 1986

Football League, 2004.

- **Bankrupt/in liquidation:** the situation whereby due legal process control of an organisation has passed from its directors to an outside independent party, normally known as an Administrator (hence the state of being 'in Administration') or Receiver, who acts in the interests of the creditors.
  - **Insolvent:** unable to meet your obligations as they fall due. The most high-profile recent UK insolvency was the Channel Tunnel. The creditor banks were owed billions of pounds but it suited them to influence the directors rather than to appoint a Receiver and, indirectly, to receive ownership of a hole in the ground. Broadly this definition incorporates the definition of 'insolvency event' given in Exhibit 1.
  - **Financially distressed/illiquid:** short of money. By their nature these are not precise terms.
  - **Liquid:** with surplus cash, for example after a small club sells a star player or has an unexpected cup run.
- Authors have tended to try and associate bankruptcy with the study of a particular business facet, such as cash-based fund flows (Aziz et al, 1988), agency and prospect theory (D'Aveni, 1989a, 1989b), governance structures (Daily & Dalton, 1994), inter-organisational linkages and financial leverage (Sheppard, 1994) and a variety of factors (Daily, 1994).
- The prediction of bankruptcy through the use of financial data has prompted considerable research. Altman developed a model that offered a reasonable degree of success in predicting bankruptcy two to three years ahead of the event (Altman, 1968). This model was refined and adapted for use in the United Kingdom by Taffler and Tisshaw. Among the examples



they said would have been predictable with their model was the 1973 collapse of Court Line (Taffler & Tisshaw, 1977). Altman further developed his predictive model (Altman et al, 1977), and it has been still further developed more recently by Zopounidis and Dimitras (1998).

Morris (1998) casts doubts, however, on the accuracy of such models, because of the high rate of misclassification error, their self-fulfilling nature, and the fact that many bankruptcies are due to 'unforeseeable' circumstances.

The particular nature of sport as business – exemplified in the Commission of the European Communities' White Paper on Sport (2007), which argues that there is a 'specificity' to sport – suggests that application of general theoretical frameworks may be problematic. The general literature therefore offers less than might be hoped for and is unlikely to be a fertile source for research in a sub-sector where the profit motive is not paramount and is balanced with the desire for sporting success. Many of the 'investors' in football clubs do not expect a return or repayment.

The argument that individual sectors need individual 'recipes' has been well rehearsed by Spender (1989, 1998), and an objective of this project is to produce an individual analysis of insolvency – individual in that it is recognised from the outset that it is highly unlikely that it will be generalisable beyond the sports industry.

Within the football sector, interest in the performance nexus – on the pitch and in financial terms – grew as the post-commercialised phase of business evolution emerged following the formation of the Premier League and the first BSkyB broadcasting rights contract (Beech, 2004). Within a decade there was an extensive literature (see, for example, Conn, 1997; Szymanski & Kuypers, 1999; Hamil et al, 1999; Morrow, 1999; and Hamil et al, 2000) but the emphasis was in general on success or on lack of success. Two more recent examples from the literature do focus on failure: Buraimo et al (2006) and Emery & Weed (2006). They are of particular interest in that they adopt strongly different approaches. While Buraimo et al concentrate on the analysis of

aggregated financial data with relatively little consideration of individual clubs, and are thus entirely quantitative, Emery and Weed begin from this perspective but then focus on a single case study (of Lincoln City), considering both the financial failure and the subsequent recovery.

While both these contrasting approaches are attractive and insightful, it is clear that a methodology covering both aggregated and individual data and quantitative and qualitative data is likely to give the richest analysis. This research project uses both and thus offers a new approach to the subject.

### Methodology

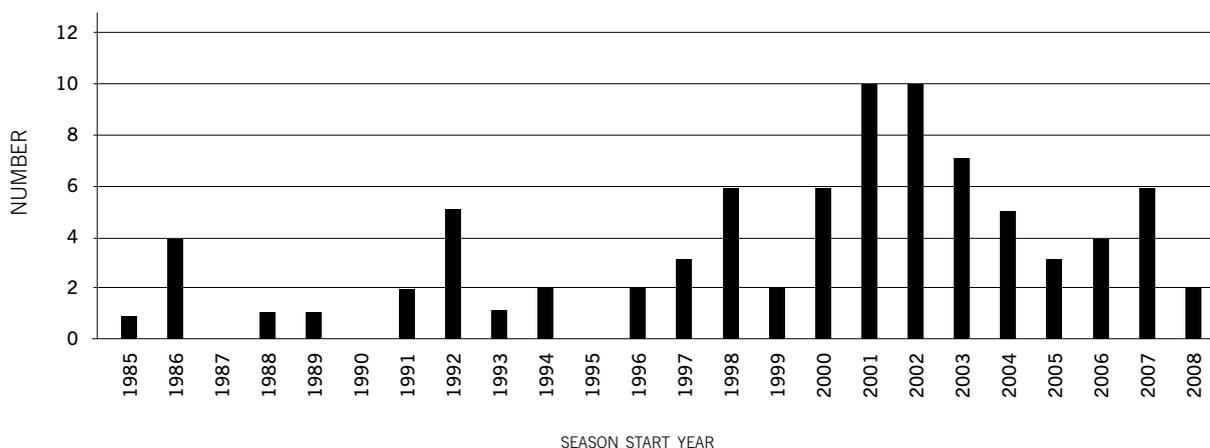
The originally planned methodology for this research project has been described elsewhere (Beech et al, 2008). It is summarised as a three-phase project:

- 1. An exploratory phase to define the scope of the project.** This included identifying the temporal scope – the date from which the study should begin – and the spatial scope – in particular, whether to look at football in Britain or just in England. Once the temporal scope had been identified, a timeline of relevant external events was to be developed.
- 2. A phase of data gathering and analysis.** Data gathering consisted of identifying all instances of insolvency during the chosen period, building a mini case study of each instance, identifying the factors which proved relevant in each case, mapping the data gathered together with any further data identified as being needed for the investigation, and mapping this data into a database. The structure of the database would be such that it could be sorted in ways that would lead to the identification of types<sup>2</sup> of club insolvencies.

<sup>2</sup> The term 'type' has been chosen over 'ideal model' or 'exemplar' in order to avoid a positive connotation.



FIGURE 1 Insolvency events by season



3. In a third phase, each type would lead to specific clubs being identified for deeper investigation, involving interviews with key decision-makers in individual insolvencies.

The first phase has been reported in Beech, Horsman and Magraw (2008). The current paper updates the findings and then reports on the types that have been identified so far in Phase 2. It should be made clear that the types are not mutually exclusive; rather, some clubs can be characterised under more than one type, suggesting that there may be causal connections between the types.

### Scope of project

The original scoping of the project had defined the time period to be investigated as being from the introduction of the 1986 Insolvency Act. However, a number of insolvency events that occurred in the early 1980s have emerged. The timeframe has therefore

been extended as far back as to begin with the demise of Accrington Stanley in 1962, the first collapse of a major club since the early years of the game. This has resulted in a database that includes 96 instances of insolvency events, involving 79 clubs. Of these clubs, 69% had played in the top four tiers, and 85% in the top five flights.

Figure 1 shows the distribution of insolvency events in each season in recent times, up to and including the case of Darlington going into Administration on 25 February 2009. At this point in the season only Darlington and Ringmer had entered Administration, although winding-up orders had been posted against several other clubs and it is likely that by the end of the season a second peak will have emerged.

Although the collapse of ITV Digital on 27 March 2002 received considerable coverage in the immediate aftermath as a cause of Administrations, the evidence from the current research suggests that its role was more as a catalyst than as a direct cause. The number of Administrations per season was already on the rise, and examination of individual cases reveals that most



clubs that faced insolvency events in the year after the ITV Digital collapse had debts that were considerably higher than the loss of revenue from broadcasting rights.

Before the data were reviewed to identify types, an attempt was made to establish whether there were any features of the circumstances of the insolvency events that might be described as broadly symptomatic of all insolvency events. In the absence of any benchmarking data for other business sectors, it proved problematic to identify any that were unique or even unusual for the football sector. However, the following are noted as worthy of further research in a multi-sector context:

- Incidences of liquidation were unusual, especially among clubs in the higher (professional) tiers. Where a club was liquidated, it was normally resurrected through the efforts of supporters, re-entering the league pyramid several tiers down. Until the 1980s, however, liquidation and immediate re-formation at the same point in the pyramid was not uncommon.
- The exit from Administration generally arose through a new owner buying the club from the Administrator. The success of the new owner was often a function of the extent to which debts had been written off, a process which lately happens through a mandatory Company Voluntary Agreement (CVA).
- The football sector is increasingly being served by insolvency practitioners who are specialising in football clubs. Such specialists include Begbies Traynor (7 occurrences), Kroll Buchler Phillips and their predecessors (10), and PKF (3).

Against this general background, five types have been identified.

### Type 1: Clubs that have failed to cope with relegation

There is a cost to being relegated. There are the drops in matchday revenues and merchandising that result from fans drifting away from the club, and there is a significant incremental drop in broadcasting revenues, the biggest of which results from relegation from the Premier League to the Championship.

Although parachute payments have been introduced as a softening of the blow, they may prove inadequate for a club that has not planned for the possibility of relegation, and may in any case lead to the 'bounce back' or 'yo-yoing' phenomenon, where clubs repeatedly move between the same two divisions in consecutive seasons. To match these drops in income a club must reduce its costs, most notably its salary bill. This is frequently problematic:

- Most contracts between clubs and players are mid-term in nature while playing success is short term, resulting in clubs having an inability to flex their cost base as their revenue changes.
- Many clubs never do scenario budgeting. They stumble into a relegation plan rather than having plans and flexibility based upon all eventualities.
- Clubs may have 'panicked' into purchasing players they can ill afford in an attempt to stave off relegation. A notable example was the case of Bradford City, relegated from the Premier League in 2001. Chairman Geoffrey Richmond described the period fighting relegation as "six weeks of financial madness" (Guardian, 2002), a reference in particular to the club's purchase of Benito Carbone in August 2000 for a signing on fee of £2m and a further £4m over four years.



- Until very recently clubs failed to include negative performance-related clauses in players' contracts. In the case of Bradford and Carbone, the club was committed to paying Carbone at the rate of £40,000 per week even after relegation.

By the summer of 2004 Bradford City were in Administration for the second time and were having to ask players to defer their wages.

A third characteristic identified was the high-risk strategy and related phenomenon of clubs buying players immediately after relegation in the hope that a bolstered squad would enable the club to achieve promotion within one season.

In 20 cases the insolvency event occurred within a year of relegation. A further five occurred in the second year and eight in the third year. In summary, 33 of the 96 insolvency events (34%) occurred within three years of relegation.

In a smaller number of cases promotion had also proved problematic; indeed, 'yo-yoing' between divisions ensures a club lacks the stability for effective financial planning. Swansea Town, for example, who were promoted on five occasions and relegated on five in the period from 1981 to 2008 faced insolvency events in 1985 and 2003. Similarly, between 1977 and 1989 Wolverhampton Wanderers were promoted four times and relegated four times; the club faced two insolvency events in this 12-year period.

### **Type 2: Clubs that have failed to pay monies due to the government**

Clubs, like any business, incur liabilities to the government. First, they collect Value Added Tax (VAT) for the services they provide. The monies collected thus belong to the government and the club is merely collecting and holding them on the government's behalf. Second, a series of payments which might loosely be termed taxation, accrues. The largest of these is likely to be the income tax on employees,

notably from players' salaries and normally deducted from salaries under the Pay As You Earn (PAYE) scheme. Other liabilities to the government include National Insurance deductions from employees' salaries. If a club sells its stadium or training ground, it may be liable to pay Capital Gains Tax.

Until April 2005 two UK government agencies were involved – the Inland Revenue and Customs & Excise. Now the two bodies operate as a single agency, Her Majesty's Revenue and Customs (HMRC). Under UK law the agencies used to enjoy a 'preferred creditor' status – in the event of Administration or even liquidation they had a right to monies due to them in preference to other creditors. In September 2003 they lost this status following a change in the law. In practice this meant that since then they have had a less preferential status than 'football creditors' (for example, clubs owed money as unpaid transfer fees). Football creditors include clubs, players and leagues, but not managers or other members of the club's non-playing staff. This is a strong rule to enable the football authorities to prevent unfair use of Administration to buy success on the pitch and then not pay for it. On the one hand it provides the governing body with a strong control mechanism, but it means that payments will be paid to football creditors in priority to, for example, monies collected by the club on behalf of HMRC in the form of VAT.

In response to this change in status HMRC has increasingly opposed proposed CVAs that would see them forced to accept low levels of repayment.

In this context it might be expected that football clubs would be conscientious in making payments due to the government. Although details of debts due in insolvency events are not always in the public domain, some information has been reported in 62 instances – 52 (84%) of these included debts due to the government agencies. There is little evidence to show any change in attitude either in 2003, with the change in the law, or in 2005, with the change in organisation of the agencies.

The picture that emerges is thus one of a cavalier



attitude to payment and a willingness to drift into confrontation. There is very limited evidence that winding-up orders have been fought and a mutually acceptable payment schedule negotiated, for example in the cases of Southend United in 2000 and Grimsby Town in 2004. In the latter case the debt was reported to be close to £500,000. This suggests that football clubs not only tend to be reluctant payers but also reluctant negotiators.

It may be the case that clubs are crisis managers rather than planners, a view supported by the industry observations of one of the authors.

### Type 3: Clubs that have seen 'soft' debt become 'hard' debt

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A business model in which a football club becomes dependent on the largesse of a benefactor-owner has become increasingly common. The most notable example is Chelsea, where Roman Abramovich is reported as having sunk half a billion pounds into the club in the form of 'soft' debt, i.e. debt which will not be called in. While the Chelsea case is exceptional in its scale, many clubs operate business models that would be unsustainable without a benefactor. The presence of a benefactor has a secondary positive impact in that his presence on the Board of the club facilitates borrowing by acting as a guarantor.

The limitation of this business model is reached when the 'soft' debt becomes 'hard' debt. It is the frequent cause of an insolvency event as the speed with which support is withdrawn may be dramatic. This instability in a club's finances can result from a number of circumstances:

- the death of the benefactor (e.g. Sir Jack Hayward at Wolverhampton Wanderers)
- the withdrawal of the benefactor through personal circumstances (e.g. Thaksin Shinawatra at Manchester City)

- the failure of a benefactor to provide the support promised (e.g. Spencer Trethewy, Aldershot Town)
- the withdrawal of a benefactor through age (e.g. Ken Booth, Rotherham United)
- the loss or shift in interest of the benefactor (e.g. Vic Green from Hendon to Stevenage Borough and Graham Westley from Farnborough to Stevenage Borough)
- the sudden loss in wealth of the benefactor (e.g. the Kumar brothers, Birmingham City, and Mike Connett, Northwich Victoria).

All examples except the first two have triggered insolvency events.

### Type 4: Clubs that have lost the ownership of their stadium

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The conversion of 'soft' debt into 'hard' debt is often precipitated by the transfer in ownership of the club's stadium, or less frequently its training ground, from the club to its owner, particularly in the case of withdrawing owners – Rotherham United and Northwich Victoria noted above fall into this category.

Owning one's stadium is a basis for better financial stability, and losing that ownership has three possible negative financial implications:

- the reduced asset base lowers the club's credit rating, making it more difficult to take on loans or continue with an overdraft
- opportunities for income through stadium- and stand-naming rights are closed to the club
- unless the tenancy of the stadium has an exclusivity clause, the club may have to see revenue-generating non-football events taking place in the stadium for the benefit of others.



While the shift in ownership may be an enforced and understandable outcome of benefactor withdrawal, the data revealed a worrying number of instances of bad management and even unethical and/or illegal practices. Examples in clubs subsequently involved in insolvency events include:

- **Barrow**  
Ownership of the stadium had passed to owner Stephen Vaughan's company, Vaughan Promotions, and was only returned to the club following legal action by the Administrator.
- **Brighton and Hove Albion**  
The Goldstone Ground was sold for development because the club was in severe financial difficulties. However, this was completed before alternative arrangements had been made, and the club became nomadic for a number of seasons.
- **Leeds United**  
Again because of severe financial difficulties, the Elland Road stadium and the Thorp Arch training complex were sold in 2004 on a sale-and-lease-back basis with an option to buy back. In 2009 the stadium is in the ownership of the Teak Trading Company, based in the British Virgin Islands.
- **Wrexham**  
The then owner, Alex Hamilton, sold the club's stadium for redevelopment. As in the case of Barrow, the club only regained ownership through legal action by the Administrator.

These are in marked contrast to cases where the stadium has been used creatively in asset management. Despite being unpopular with fans, mergers have been done successfully – Dagenham & Redbridge, Ebbsfleet (formerly Gravesend & Northfleet), Havant & Waterlooville, Hinckley United (formerly Hinckley Athletic and Hinckley Town), Rushden & Diamonds, and Solihull Moors (formerly Solihull Borough and Moor Green).

### Type 5: The 'repeat offenders'

A number of clubs have faced insolvency events on more than one occasion. These are listed in Table 1.

There are thus 17 instances of an insolvency event reoccurring. The frequency at which these re-events have occurred is set out in Table 2: 47% are within four years of the previous event; 68% are within seven years. The relatively rapid re-occurrence may, from one perspective, be unsurprising – the first occurrence implies that the club was already in a weak financial position; factors such as poor attendance at matches, with resultant poor revenue streams, might be expected to be a continuing problem. However, it might also be argued that lessons had not been learned. Table 3 shows the debts of the clubs at the time of the insolvency events.

Only in the cases of Darlington (2009), Luton Town (2007), possibly Rotherham United (2008), Swansea City (2003) and Swindon Town (2002) were the debts at a lower level than in the preceding insolvency event. This is a surprising outcome as in the preceding insolvency it would have been typical for some of the ambient debt to have been written off in agreement with the creditors (paying perhaps as little as 10p in the £), and again typically the club would have been bought from the Administrator by a new owner with an injection of cash to put the club back on to a firm financial basis. Possible explanations for this are naivety on the part of new owners (as for example with the 19-year-old new owner of Aldershot Town, Spencer Trethewy), inability to reduce costs (at Rotherham United, for example, where the recovery of the stadium by the ex-Chairman, Ken Booth, in lieu of repayment of loans, resulted in a rent charge of approximately £200,000 a year, which the club felt unable to meet when attendances fell to below 4,000) and/or reduced revenues resulting frequently from relegation. It must be noted that falling into Administration may be the cause of a relegation with the introduction of the 10 point penalty in 2003 (see Beech, 2009, for a discussion of the dysfunctional outcomes of points deductions).



## Insolvency in English football

**TABLE 1** Clubs with more than one insolvency event

ALDERSHOT	(1990; 1992)
BOURNEMOUTH	(1997; 2008)
BRADFORD CITY	(2002; 2004)
CRAWLEY TOWN	(1999; 2006)
DARLINGTON	(1997; 2003; 2009)
EXETER CITY	(1994; 2003)
HALIFAX TOWN	(1987; 1999; 2002; 2008)
LUTON TOWN	(1999; 2003; 2007)
ROTHERHAM UNITED	(1987; 2006; 2008)
SCARBOROUGH	(1999; 2003)
SWANSEA CITY	(1985; 2003)
SWINDON TOWN	(2000; 2002)
WOLVERHAMPTON WANDERERS	(1982; 1986)

**TABLE 2** Frequency of re-occurrence of an insolvency event

NO. OF YEARS BETWEEN EVENTS	NO. OF OCCURRENCES
2	4
3	1
4	4
6	3
7	1
9	2
11	1
12	1
18	1
19	1

**TABLE 3** Clubs with repeat instances of insolvency events

CLUB	REPORTED DEBTS			
	1	2	3	4
ALDERSHOT	£0.494M (1990)	£1.2M (1992)		
BOURNEMOUTH	£4M (1997)	£5.8M (2008)		
BRADFORD CITY	£33M (2002)	£36M (2004)		
CRAWLEY TOWN	£0.4M (1999)	£1.4M (2006)		
DARLINGTON	£5.5M (1997)	£20M (2003)	£5M (2009)	
EXETER CITY	£4M (1994)	£4.5M (2003)		
HALIFAX TOWN	£0.4M (1987)	?? (1999)	£0.6M (2002)	£3M (2008)
LUTON TOWN	£3M (1999)	£11M (2003)	£4.5M (2007)	
ROTHERHAM UNITED	£0.789M (1987)	£1M (2006)	?? (2008)	
SCARBOROUGH	£0.6M (1999)	£2.5M (2003)		
SWANSEA CITY	£1.5M (1985)	£1.4M (2003)		
SWINDON TOWN	£3.5M (2000)	£1.8M (2002)		
WOLVERHAMPTON WANDERERS	?? (1982)	£0.75M (1986)		



TABLE 4 Percentage of clubs by current membership of tier that have suffered an insolvency event

TIER	NO. OF CLUBS	% THAT HAVE SUFFERED AN INSOLVENCY EVENT
1 – PREMIER LEAGUE	20	20%
2 – CHAMPIONSHIP	24	46%
3 – FOOTBALL LEAGUE 1	24	54%
4 – FOOTBALL LEAGUE 2	24	62.5%
5 – CONFERENCE NATIONAL	24	33%
6 – CONFERENCE NORTH & SOUTH	44	5%

TABLE 5 Percentage of clubs by membership of tier when insolvency event occurred

TIER	% THAT SUFFERED AN INSOLVENCY EVENT WHILE IN THE TIER
1 – CURRENTLY PREMIER LEAGUE	0%
2 – CURRENTLY CHAMPIONSHIP	15%
3 – CURRENTLY FOOTBALL LEAGUE 1	21%
4 – CURRENTLY FOOTBALL LEAGUE 2	30%
5 – CURRENTLY CONFERENCE NATIONAL	15%
6 – CURRENTLY CONFERENCE NORTH & SOUTH	11%
7 – AND LOWER	7%

## Conclusion

At this stage in the research project (Phase 2), a number of general conclusions may be drawn tentatively. It would appear that insolvency has indeed become almost a 'legitimate' tactic in a football club's business strategy. The scale at which it has happened is summarised in Table 4.

It should be remembered that the figures in Table 4 refer to the present constitutions of the tiers but that the insolvency events may have occurred while a club was in membership of a different tier. Table 5 shows a breakdown by tiers at the time of the insolvency event.

Clubs are thus at their most vulnerable in Tier 4. However, as this data includes the pre-commercialised era of modern football, the tendency will be for the peak to drift towards Tiers 5 and 6. At these levels, they were historically amateur clubs, which typically have professionalised on promotion but are showing

no evidence of giving up professional status when relegated, thus putting themselves under financial pressure. For example, in the summer break of 2008 Northwich Victoria paid its players £70,000 notwithstanding that their average attendance during the previous season had been only 829 and the club faced debts reported to be millions of pounds.

Five types have been identified and will be explored in the third phase of the research project. The types are not mutually exclusive and any possible causal links will be explored.

The overall impression of English football clubs is that they face insolvency at an alarming rate and too few have developed sustainable business models to avoid it, or even avoid a repetition of insolvency.

While the calls for further punishment such as compulsory relegation are understandable, they approach the issue as a problem whose symptoms need treating, rather than one whose causes need



treating. Again, this issue will be further investigated in the third phase of the research. Specific lines of enquiry into the causes of club indebtedness will include:

- the extent to which indebtedness arises from 'finite benefaction' – the cases where a benefactor has made substantial loans to a club in the form of 'soft' debt but has ultimately sought the return of the loans
- the extent to which clubs prepare a 'Plan B' allowing for the eventuality of relegation
- the extent to which the current disparity in financial operating levels, i.e. the scale of revenues and costs, between the different tiers in the football pyramid exacerbate the difficulty of financial planning
- the extent to which clubs adopt realistic wages/revenues targets, and the extent to which they meet them.

English football is a sport that is well into the post-commercialised phase of its development (Beech, 2004). As such, it is currently offering an exemplar of how not to run a sports business. By surfacing the root causes of the problem it is hoped that lessons can be learned for other sports at the height of their commercialisation phase.

### A note on the database

The database consists of data files on all clubs discovered to have faced an insolvency event. In the course of Phase 1 it became clear that a number of clubs had come within a hair's breadth of an insolvency event (Coventry City, for example, coming within 30 minutes of Administration in 2007), and currently files have been built on the 116 clubs in the top five tiers and a further 40 on clubs who have

suffered or nearly suffered insolvency events.

Data have been drawn from the following sources: BBC News website; Google; LexisNexis (the e-database of newspaper articles from 1985); club websites; supporters trust websites; Wyn Grant's The Political Economy of Football website; the Clubs in Crisis website; and the current and archive websites of local and national newspapers.

For earlier insolvency events, club-specific books, such as Allan and Bevington (1996), have been used.

Data on promotion and relegation have been taken from the Football Club History database.

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## Biographies

**Dr John Beech** is Head of Sport and Tourism at Coventry University and researches in both the Centre for the International Business of Sport (CIBS) and the Applied Research Centre for Sustainable Regeneration (SURGE). His sports research interests currently focus on the (mis)management of English football clubs.

**Simon Horsman** is a senior lecturer in Accounting, Strategy and Business at Coventry University, where he brings a holistic approach to business. His interests include personal finance, accounting, entrepreneurship, organisational development and organisational politics, strategy and information systems (old and new) and the teaching process.

**Jamie Magraw** joined the FA in 2000 to determine whether the FA could improve financial standards within the game. This resulted in the FA Financial Advisory Unit (FAU) being established in March 2000. In August 2002 he became Finance Director of the FA, leaving in September 2003 to establish a number of companies.



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