

Financial condition of football clubs in the Polish Ekstraklasa

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Abstract:

In the turbulent market conditions, proper financial management in companies is a key part of the efficient management process. The observed transformation of football clubs into business entities, introducing licensed access criteria to football events by the Union of European Football Associations and national football associations bring new challenges to football clubs. Facing these challenges requires taking actions that ensure a good and stable economic condition. In this respect, this study concerns a valid and important problem of general financial and assets situation of football clubs participating in the Polish Ekstraklasa events. The following research methods have been used to achieve the assumed research goal: descriptive, comparative, subject literature analysis, legal acts analysis and index analysis of financial statements. The index analysis has been focused on the assessment of liquidity, debt and profitability of the analysed football clubs, considering the threats to the continuation of their activity. The obtained results gave a specific profile of activity, in a financial approach. The insight into financial statements in terms of liquidity, debt and profitability also highlighted the reservations concerning the financial condition in a large group of the analysed entities. Most football clubs reported relatively low values of liquidity indexes, which may indicate difficulties in current settlement of liabilities. Additionally, the analysis of debt indexes has indicated significant figures, often exceeding the values of all assets held. It indicates the occurrence of negative values of net assets and equity, which is a sign of improper shaping of the structure of activity-funding equity. However, in terms of profitability it has been found that only a few entities had been able to reach positive operating or net profitability as a result of generation of operating or net profit. The analysis of results of the study has shown current and potential insolvency problems as well as symptoms of threat to the continuation of business activity.

Key Words: *financial analysis, ratio analysis, liquidity, debt, profitability, football club*

Introduction

Football has been one of the most popular sport disciplines in the world. Among all sports events, football World Cup gathers the largest number of viewers. The estimated number of football fans around the world is 4 billion. Football is also a dominant sport discipline in the financial aspect. The value of broadcasting rights, football clubs budgets, the amounts of awards in the Football Champions League or the sums of transfers and contracts of football players are record-breaking, as compared to other disciplines (Garczarczyk 2019) (*Biggest Global Sports. A statistics-based analysis of the world's most popular sports*, <http://www.biggestglobalsports.com>).

In view of the growing popularity, and also as a result of the social and economic transformations, professionalisation can be observed in football all over the world (Figueiredo&Figueiredo 2017). Its origins reach back to the activity of the English football clubs in the 1970s, a period that marked transformation of the previous clubs operating as non-profit associations into enterprises. Originated in the English clubs, that process continued in other countries. The large scale of the transformations was apparent in the 1990s, when it already concerned the majority of the European football leagues (Pavlović, Mijatović, Milačić 2013). As a result of professionalisation, top football clubs have turned into modern and complex companies (Morrow, Howieson 2014). Progressive commercialisation has accelerated the ongoing transformations, emphasising the necessity to fulfil both economic and social goals in order to allow the entities to continue their development (Oczki, Pleskot 2020). The characteristics of the described transformations indicates that the activity of football clubs has evolved over these years from the SSSL model (Spectators, Subsidies, Sponsors, Local) to the MCMMG model (Media, Corporation, Merchandising and Markets) (Radaković, Smajić, Parčina, Petrović 2019). In this connection, economic issues are gaining in importance in football, in particular with reference to the scope and goals of their activity. A key role in this aspect is attributed to two factors that appeared in the 1990s. One of them was the liberalisation of regulations concerning transfers of football players, while the other was intensive technological progress that enabled broadcasting of sports events from any part of the world. It was followed by

increasing interest in football matches among fans, which in turn provided clubs with a significant source of income from the sale of broadcasting rights and attracted new sponsors (Bareja 2016).

In these circumstances, the activity of football clubs, just as company operations, is focused on economic goals in the area of increasing the net profit, increasing incomes, reducing the operating costs, financing investment and increasing the market value of the entity, etc. Current dynamic conditions of the changing sports market force football clubs to develop and implement an effective management process (Gulak-Lipka, 2020). Therefore, in order to ensure proper conditions for fulfilment of the organisation's goals, and also to guarantee benefits for its owners, it seems necessary to entrust management activities to professional managers (Karataş et al. 2016) (Karaszewski, Tomanek, 2017). Improper management may lead to financial difficulties, which in turn might result in bankruptcy of the organisation. It was apparent in a number of cases of insolvency among football clubs, reported over the last several years. Their significance is confirmed by the increasing involvement of the Union of European Football Associations (UEFA) in proceedings aimed at controlling financial situation in those entities (Alaminos, Fernandez 2019).

Currently, the basic source of financial information are financial statements. This term refers to a set of information concerning the assets situation, financial status and organisation's financial result in a given period. These reports are drawn up as a result of using proper description and presentation formulas (Krzywda 2003). The reporting data are used by a wide group of recipients (Karmańska, 2014). Among them are: the management board, investors, creditors, contractors and public administration units. These data are significant due to their wide usage in analytical processes leading to the assessment of the operating results (Kamiński 2015) (Mihaylova, Papazov 2018). The current reality of operation of football clubs results in increased importance of their financial statements. It entails greater involvement in the proper scope and level of disclosure (Rezende, Custodio 2012).

Due to the current significance of the financial condition of football clubs in the context of operation in the competitive environment, the major goal of this study is to assess the financial and assets condition of clubs participating in the Polish Ekstraklasa events. The following research methods will be used to fulfil the assumed research goal: descriptive, comparative, subject literature analysis, legal acts analysis and index analysis of financial statements. The validity of this subject is emphasised by the assumptions of the licence system in Poland, modelled on the solutions implemented by UEFA. According to its rules, clubs admitted to participate in a given event must meet the agreed sports, infrastructural, administrative, legal and financial criteria. In particular, according to the UEFA guidelines, financial requirements are of great significance. It results from the fact that the major assumption is to improve the quality of financial management and planning in football clubs, in order to ensure a good and stable financial situation and also to improve their credibility (Wyszyński, 2015).

Material & methods

According to the valid regulations of the Polish Act on Sport, clubs participating in the professional league events must operate as joint-stock companies or limited liability companies (Act on Sport). Clubs participating in the Polish Ekstraklasa events are joint-stock companies. Table 1 presents a list of teams in the 2020/2021 season.

Table 1. Football clubs participating in the Ekstraklasa events in the 2020/2021 season

No.	Club
1	Cracovia
2	Górnik Zabrze
3	Jagiellonia Białystok
4	Lech Poznań
5	Lechia Gdańsk
6	Legia Warszawa
7	PGE FKS Stal Mielec
8	Piast Gliwice
9	Podbeskidzie Bielsko-Biała
10	Pogoń Szczecin
11	Raków Częstochowa
12	Śląsk Wrocław
13	Warta Poznań
14	Wisła Kraków
15	Wisła Płock
16	Zagłębie Lubin

Source: <https://ekstraklasa.org/kluby> (09.2020).

The joint-stock company form determines the necessity to keep accounting ledgers and to prepare financial statements submitted to the National Court Register. These entities are also obliged to submit such documentation to the Polish Football Association (PZPN) as part of the licensing process. Most clubs also

publish these statements on their websites. The analysis of financial and assets situation in clubs participating in the Polish Ekstraklasa events has been conducted on the basis of the information derived from their financial statements regarding the period ending in 2019. For two entities, namely PGE FKS Stal Mielec i Piast Gliwice, analysis was impossible because they had not provided proper information regarding the specified period. The study was based on financial analysis. Taking into account the detailed requirements of the current PZPN licensing regulations, the considerations have been focused on three areas of index analysis, i.e. liquidity, debt and profitability analysis.

Results

The analysis has been based on 14 financial statements of football clubs participating in the Ekstraklasa events, regarding the periods ending in 2019. The obtained results have been divided into 3 areas. The first group of calculated indexes concerned the liquidity of the analysed entities. Current liquidity ratio, cash liquidity ratio and cash liquidity indexes have been used. Detailed results are shown in Table 2.

Table 2. Results of liquidity analysis of football clubs participating in Polish Ekstraklasa in 2019.

No.	Club	Cash liquidity ratio	Quick ratio	Current liquidity ratio
1	Cracovia	0.61	1.33	1.48
2	Górnik Zabrze	0.04	0.46	0.55
3	Jagiellonia Białystok	0.20	0.26	0.61
4	Lech Poznań	0.04	0.32	0.43
5	Lechia Gdańsk	0.01	0.10	0.13
6	Legia Warszawa	0.37	0.66	0.78
7	Podbeskidzie Bielsko-Biała	0.04	0.36	0.42
8	Pogoń Szczecin	0.10	0.45	0.47
9	Raków Częstochowa	0.00	0.06	0.07
10	Śląsk Wrocław	0.05	0.14	0.21
11	Warta Poznań	0.35	0.80	0.96
12	Wisła Kraków	0.08	0.23	0.29
13	Wisła Płock	0.02	0.62	0.94
14	Zagłębie Lubin	0.46	0.79	0.83

Source: own studies.

The results of the liquidity assessment in the analysed clubs indicate that most of them had problems with maintaining the value of considered indexes at the postulated level. Only Cracovia reported all three values at a standard level proper for the expected situation in the aspect of liquidity. It is the only club reaching the model level of the current liquidity ratio. Values close to the standard quick ratio level were reported by: Cracovia, Warta Poznań and Zagłębie Lubin. As far as the cash liquidity ratio is concerned, no general standards for the expected value have been determined, as the direction and scale of changes are crucial for this index. However, in some cases values above 0.2 were reported. Relatively smaller difficulties related with the cash liquidity index should be expected for: Cracovia, Jagiellonia Białystok, Legia Warszawa, Warta Poznań and Zagłębie Lubin.

Another aspect of the study was the debt analysis. Four basic indexes have been used in this category: debt ratio, long-term debt ratio, short-term debt ratio and debt equity ratio. Detailed results are presented in Table 3.

Table 3. Results of debt analysis of football clubs participating in Polish Ekstraklasa in 2019.

No.	Club	Debt ratio	Long-term debt ratio	Short-term debt ratio	Debt equity ratio
1	Cracovia	0.36	0.00	0.30	0.57
2	Górnik Zabrze	2.42	1.19	1.20	-1.71
3	Jagiellonia Białystok	0.58	0.03	0.54	1.40
4	Lech Poznań	0.92	0.19	0.62	11.09
5	Lechia Gdańsk	4.85	0.51	3.91	-1.26
6	Legia Warszawa	0.87	0.41	0.31	6.69
7	Podbeskidzie Bielsko-Biała	1.20	0.00	1.16	-5.94
8	Pogoń Szczecin	2.01	0.42	1.40	-1.99
9	Raków Częstochowa	12.85	0.00	12.85	-1.08
10	Śląsk Wrocław	3.57	0.00	3.54	-1.39
11	Warta Poznań	4.68	3.63	1.04	-1.27
12	Wisła Kraków	6.06	3.64	2.41	-1.20
13	Wisła Płock	0.87	0.03	0.73	6.89
14	Zagłębie Lubin	0.41	0.15	0.25	0.69

Source: own studies.

The calculated values indicated alarming signs of financial problems in certain entities. It concerns eight clubs in which the debt ratio index was higher than 1. It means that the debt exceeded the worth of the entire assets held by the organisation. Such a situation occurs when equities, and as a result also net assets, have negative values. In that case, the equity ratio index is also negative. It indicates an improper shape of the financial structure, and therefore a threat to the continuation of activity in a further perspective. The case of Zagłębie Lubin is very interesting in this aspect. It is the only club in which activity-financing own equity exceeds liabilities. A relatively good financial situation in the analysed aspect has also been found in Cracovia and Jagiellonia Białystok.

Profitability analysis was the third area of the described study. Based on the available information, the values of five basic indexes allowing to analyse business profitability have been determined. They were return on equity (ROE), return on assets (ROA), operating return on equity (OROE), operating profit margin (OPM) and return on sales (ROS). The calculated values are presented in Table 4.

Table 4. Results of profitability analysis of football clubs participating in Polish Ekstraklasa in 2019.

No.	Club	Return on equity	Return on assets	Operating return on equity	Operating profit margin	Return on sales
1	Cracovia	0.06	0.04	0.07	0.06	0.05
2	Górnik Zabrze	-0.04	0.06	-0.09	0.12	0.06
3	Jagiellonia Białystok	0.18	0.08	0.19	0.07	0.07
4	Lech Poznań	-4.34	-0.36	-4.80	-0.40	-0.36
5	Lechia Gdańsk	0.16	-0.60	0.12	-0.18	-0.23
6	Legia Warszawa	-1.51	-0.20	-1.26	-0.27	-0.32
7	Podbeskidzie Bielsko-Biała	-0.22	0.01	0.77	-0.04	0.01
8	Pogoń Szczecin	-0.04	0.04	-0.09	0.05	0.02
9	Raków Częstochowa	0.45	-5.36	0.43	-0.48	-0.50
10	Śląsk Wrocław	0.26	-0.67	0.22	-0.12	-0.14
11	Warta Poznań	0.89	-3.28	0.89	-2.29	-2.29
12	Wisła Kraków	-0.09	0.47	-0.10	0.20	0.18
13	Wisła Płock	-9.83	-1.25	-9.73	-0.37	-0.37
14	Zagłębie Lubin	-0.06	-0.04	-0.04	-0.05	-0.08

Source: own studies.

The analysis of the obtained results leads to a conclusion that business activity is not profitable in the majority of the listed entities. Only 6 clubs generated net profit, reaching positive ROA and ROS values, but at a rather low level. The operating activity was profitable for only 5 clubs. ROE and OROE indexes should be interpreted considering the previously mentioned negative equity values reported in certain clubs. A positive ROE and OROE value with negative own equity shall mean a net or operating loss incurred by the entity. Lechia Gdańsk, Raków Częstochowa, Śląsk Wrocław and Warta Poznań were in that situation.

Discussion

Current market conditions in which football clubs operate force them to implement effective financial management, focused on ensuring a good and stable financial and assets conditions. Lack of proper action in this field resulted in bankruptcy or degradation to lower leagues in a number of cases (Rezende, Custodio 2012). This issue becomes even more important in the context of the valid licensing requirements. This study presented an assessment of the financial and assets situation of football clubs participating in the top class events in this sport discipline in Poland. Based on the analysis of liquidity, debt and profitability, reservations concerning the financial condition of a large group of the analysed entities have been determined.

Using index analysis in the assessment of the financial and assets situation of football clubs allows to get valuable results and formulate certain conclusions. It should be noted that this tool has some drawbacks. There are certain limitations for using this method in the case of the analysed group of entities (Wyszyński 2017). However, it is worth mentioning that contemporary football clubs transforming into enterprises operating in the market economy conditions are becoming increasingly subject to the general capital and financial rules and requirements.

One of the major parameters used by the licensing authorities is the net assets value, which was negative roughly in fifty percent of the analysed clubs. It means that the assets value is lower than the value of liabilities. Undoubtedly, it is a threat in the context of continuity of operations in a further perspective.

The results of the liquidity assessment in the surveyed football clubs indicate that most of them had problems with maintaining the value of considered indexes at the proper level. Only one club (Cracovia) reaching the model level of the all analysed liquidity ratios. While values close to the standard level of quick ratio and cash liquidity ratio were reported by Warta Poznań and Zagłębie Lubin.

Values of debt ratios indicated disturbing signs of financial problems in certain entities. Especially, it concerns clubs in which the debt exceeded the worth of the entire assets. It indicates an improper financial structure, and therefore is a symptom of potential financial difficulties in a further perspective. It should be noted that only in case of Cracovia and Zagłębie Lubin equity exceeds liabilities. Moreover Jagiellonia Białystok has also a relatively good financial situation in this issue, because the value of debt is close to the value of assets.

On the basis of the conducted analysis, it can be noticed that the activity of the majority of the listed entities is not profitable. Net profit was generated by only 6 clubs, which reaching positive ROA and ROS values, but at a rather low level. While the operating profit was earned by 5 surveyed clubs. Results of the analysis of the ROE and OROE indexes should be interpreted carefully considering the previously mentioned negative equity which was in certain clubs. It results from the fact that a positive ROE and OROE value with negative equity shall mean a net or operating loss incurred by the entity. This situation has occurred in case of Lechia Gdańsk, Raków Częstochowa, Śląsk Wrocław and Warta Poznań.

Conclusions

As a result of the financial analysis, various conclusions and reservations were established regarding the financial and assets situation of football clubs participating in the top class events in this sport discipline in Poland. The liquidity analysis revealed that in most clubs indexes had relatively low values, which indicates current or potential difficulties in settlement of liabilities. It is alarming conclusion concerning the economic condition of the analysed clubs. Another one of the interesting and important observations is that in most of the surveyed entities debt exceeded the worth of the entire assets held by the club. This is a worrying phenomenon that requires control, because over-indebtedness can lead to bankruptcy. The following aspect of the study was profitability of football clubs. It has been determined that only 6 entities generated net profit in the last reporting period, while the other 9 incurred net loss. This relation is even worse in the context of operating profitability. Moreover, the fact that two clubs still have not published their statements for 2019 is alarming. In accordance with legal regulations submit financial statements in that case is obligatory. That's why not only financial and assets situation in the context license requirements needs to be monitored but also fulfilling legal obligations. This study is not a complete analysis of the problem, but undoubtedly it should serve as a starting point for further research in this field.

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