

**THE BUSINESS OF FOOTBALL:  
IMAGE MANAGEMENT IN NARRATIVE  
COMMUNICATION**

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The Research Committee is grateful to all those who participate in the refereeing process.

# CONTENTS

|  |            |
|--|------------|
| <i>Foreword</i> .....                        | <i>i</i>   |
| <i>Acknowledgements</i> .....                | <i>iii</i> |
| <i>Executive Summary</i> .....               | <i>v</i>   |
| <b>1. INTRODUCTION</b> .....                 | <b>1</b>   |
| <b>2. LITERATURE REVIEW</b> .....            | <b>9</b>   |
| The business of football .....               | 9          |
| The role and purpose of annual reports ..... | 10         |
| <b>3. APPROACH TO THE PROJECT</b> .....      | <b>17</b>  |
| Aims of the project .....                    | 17         |
| Research method .....                        | 18         |
| Limitations .....                            | 21         |
| <b>4. RESULTS AND ANALYSIS</b> .....         | <b>23</b>  |
| Length and disclosure .....                  | 23         |
| Discussion .....                             | 28         |
| Content analysis .....                       | 29         |
| Matching .....                               | 33         |
| Case studies: clubs in trouble .....         | 37         |
| <b>5. CONCLUSION</b> .....                   | <b>43</b>  |
| Policy recommendations .....                 | 46         |
| Further research .....                       | 49         |
| <b>REFERENCES</b> .....                      | <b>51</b>  |
| <b>APPENDIX ONE</b> .....                    | <b>59</b>  |
| <b>APPENDIX TWO</b> .....                    | <b>69</b>  |
| <b>APPENDIX THREE</b> .....                  | <b>71</b>  |

## FOREWORD

“Some people believe football is a matter of life and death. I’m very disappointed with that attitude. I can assure you it’s much, much more important than that.” So said the great football manager Bill Shankly many years ago. While this may or may not be true, one thing that can definitely be said about football is that it has changed significantly over the past few years. Few fans twenty years ago could have imagined that football would have become the multi-million pound business which it is today. Football related stories are now as likely to appear in the main section of the *Financial Times* as on that newspaper’s sports page, and to be of interest to the business community generally rather than just to fans of the clubs involved.

However, not everything in the football garden is rosy from a business perspective. In spite of the vast sums of money mentioned in connection with the game, many clubs are now in dire straits financially with 25% of the Scottish Premier League clubs spending at least part of season 2003/04 in administration. This has led directly to supporters looking for improved public accountability from football club directors and the club’s annual report is an important document in this process as a mass communication device. As many supporters do not have expertise in interpreting financial statements, a large part of the communication burden falls to the narrative reporting of the annual report.

This creates an interesting situation – for it offers a parallel with the dilemma faced by most listed commercial companies with substantial numbers of individual shareholders who seek to use their annual report to communicate to those shareholders, yet recognise that many of them do not find accounts and financial matters easy to

assimilate. Lessons drawn from football may have wider relevance in terms of public reporting of the results of business.

The researcher has recognised this parallel, and has looked at annual reporting by a range of football clubs in both Scotland and England by carrying out an investigation into the underlying information trends. He has sought to establish whether over a five-year period annual reports have become longer with increased emphasis put on unregulated narrative reporting and whether the amount of narrative reporting is affected by the form and location of the club. In particular he has examined whether the narrative reporting, (which is of course largely unregulated), is being 'spun' in order to mask the true financial position of clubs.

The Research Committee of The Institute of Chartered Accountants of Scotland has been happy to fund this project and is delighted to publish this report. The Committee hope that this report will contribute not only to the development and improvement of narrative reporting by football clubs and the interests of a wide range of stakeholders in the game, but also be of relevance in situations where narrative reporting is the key to communication with those shareholders for whom financial data appears impenetrable.

Nigel Macdonald  
Convener  
Research Committee

March 2005

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## EXECUTIVE SUMMARY

Football at club level has changed markedly in the last decade or so. Indisputably, major football clubs are now complex businesses, intrinsically concerned with financial matters. One of the most important contributory factors in the new business era of football has been television, in particular satellite television, both in terms of the amount paid for broadcasting rights and also in radical alterations to the distribution of that income among clubs. The increasing business orientation of clubs is also evident in other areas: for example, the status of players, where alterations to the transfer system have given players greater freedom of movement and contractual bargaining power, and changes in the ownership structure and governance of clubs.

How football, or more accurately, football constituencies or stakeholders, should respond to this economic transformation remains a contested area. As a business it could be argued that football's strategic direction and its decision making should now be a function of market economics, with an unfettered market approach being adopted to issues such as league structure and the distribution of revenues, with the emphasis on business objectives like profit, shareholder value and market share. Alternatively, a more politically informed approach can be adopted which results in football being conceptualised as economic in basis, but social in nature. This approach encourages recognition of the social aspects that delineate football from purely economic activity; that is to identify how its economic base affects its stakeholders.

This debate has been thrown into sharp focus in recent years by the fact that despite clubs earning record levels of income, many of these clubs have found themselves in serious financial difficulties with few reporting profits and several heavily indebted. One response

from supporters of these clubs has been to demand improved, and more public, forms of accountability from club directors. Supporters often have high levels of engagement with their clubs. The setting up of mutually structured supporter trusts at most professional clubs in England and Scotland, and the very high levels of attendance at the AGMs of those clubs that have become Stock Exchange listed companies are just two manifestations of their engagement and of their demands for accountability.

In this context the annual report is an important document; a mass communication device capable of providing information to a wide range of groups and of discharging accountability. In particular, narrative reporting in annual reports provides a convenient route for clubs to convey information to interested stakeholders who may not always have expertise in interpreting financial statements.

## **Study and findings**

The study was based on a sample of thirty football clubs over a five-year period, beginning with the 1997/98 annual reports. The clubs selected were the twenty clubs in the English FA Premier League and the ten clubs in the Scottish Premier League in season 1997/98. The study was concerned with the following issues:

- whether football club annual reports are becoming longer documents, with an increasing emphasis on unregulated narrative content;
- whether the amount of narrative reporting is dependent on the organisational form and location of the football club;
- whether narrative communication about the financial position and performance of football clubs has become a site of image management; with the narrative being used to mask the financial

position and performance of football clubs, including those listed on the Stock Exchange.

The incidence of narrative reporting was determined by carrying out a systematic analysis of the unaudited narrative content in football club annual reports. Nine key variables were selected: financial performance in year under review; debt levels, financing; wages and salaries; historical logic; youth development; future – performance, revenues; capital investment – development projects; player investment; and capital investment – stadium, other capital projects. In total 3,317 individual text units were identified and classified.

### **Length and content**

Over the five year period football club annual reports have followed the trend in the wider corporate environment, becoming longer documents, with increasing emphasis on free-form business narrative. Furthermore, clubs listed on the Stock Exchange have longer annual reports, with more free-form business narrative than those which are not Stock Exchange listed, while English clubs tend to have longer annual reports than Scottish clubs. As the period of study for this research has been an expansionist one in terms of income generation in the industry generally, these findings are unsurprising: clubs have become substantially bigger businesses over this period, and the turnover of major English clubs is considerably greater than the majority of Scottish clubs, primarily due to the more lucrative television deal enjoyed by the FA Premier League in England.

### **Image management**

Despite the poor financial performance reported by many clubs over the five-year time period, the study indicates that narrative reporting was highly skewed towards neutral and positive commentary.

Of the 3,317 text units identified, only 14% were coded as negative statements, with the balance being evenly split between neutral and positive statements. The evidence suggests that the narrative is focused on information which can be reported as good news, such as improved television deals, with little or no emphasis on equally important but less palatable information such as, for example, disproportionate increases in wages and salary costs. Furthermore, a detailed study of disclosure on clubs' wages and salaries suggests an inconsistency between the underlying financial performance and position and the accompanying narratives. While a significant correlation was reported between lower ratios for wages as a percentage of turnover and positive, confirmatory narrative, the absence of such a correlation for higher ratios and negative comments at the very least suggests lack of balance in the clubs' narrative reporting.

### **Issues for consideration**

Football is a peculiar business. Structural factors like the scale of reward on offer to clubs for retaining top division status and the skewed mechanisms for distribution of these revenue sources, taken together with the high degree of engagement between many supporters and their clubs, place particular demands and pressure on football club directors. But the peculiarities of football businesses also provide benefits for directors: for example, few other businesses enjoy such loyal and committed customers as football clubs.

In this context narrative reporting is important from both accountability and disclosure perspectives. Directors can communicate about a range of factors that have affected or may affect their performance to a wider range of interested stakeholders, including shareholders, supporters, community groups, the press and politicians, all of whom have been shown to take an interest in football businesses. This disclosure may help meet the demands for improved and more

public accountability from football stakeholders, particularly the supporter grouping. Moreover narrative reporting provides a means to reduce conflict between directors and supporters, providing directors with an opportunity to better inform stakeholders about the financial realities of clubs, which in turn may act to lessen any unrealistic supporter expectations. But for this to be achieved, it is essential directors ensure that the narrative presented in the annual reports is more balanced and less partial than the evidence from this study suggests is presently the case, and that the annual report sends out a more coherent message. Of course this applies to other types of business which are also susceptible to selectivity in disclosure and image management. The proposal that auditors should express an opinion on the process that has been followed by listed companies in producing their Operating and Financial Reviews may provide some assurance to stakeholders of those companies. But narrative reporting is about communication, accountability and education. Given the public space within which football clubs operate, improved narrative disclosure needs to be seen as being in the best interests of all football club stakeholders, whether motivated by financial objectives, football objectives or a combination of both.

# CHAPTER ONE

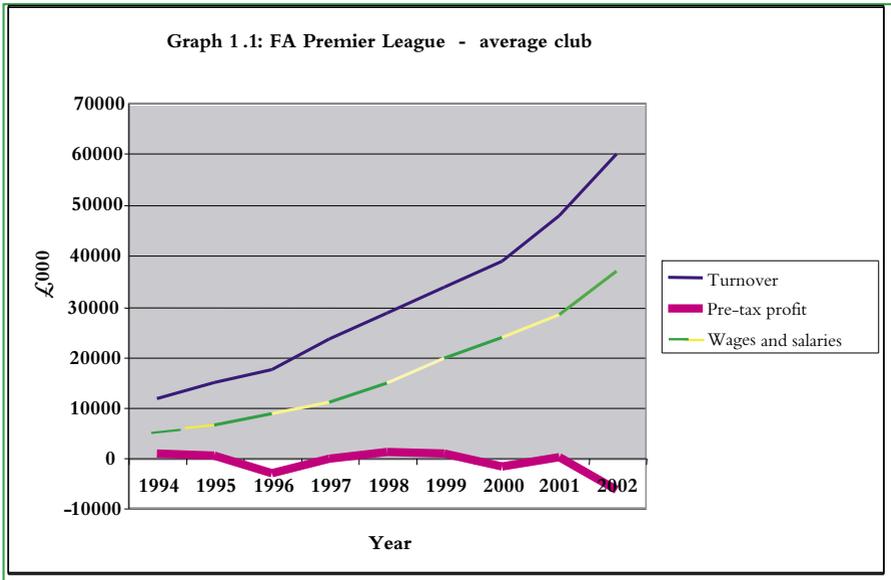
## INTRODUCTION

*It was less than a month ago that Leeds disclosed net debts of £78m and record annual losses of almost £50m. Despite those figures, the chairman, Professor John McKenzie, claimed the club had “begun to slowly turn the corner” and filled his notes in the annual report with optimistic messages at odds with the scale of his problems.*

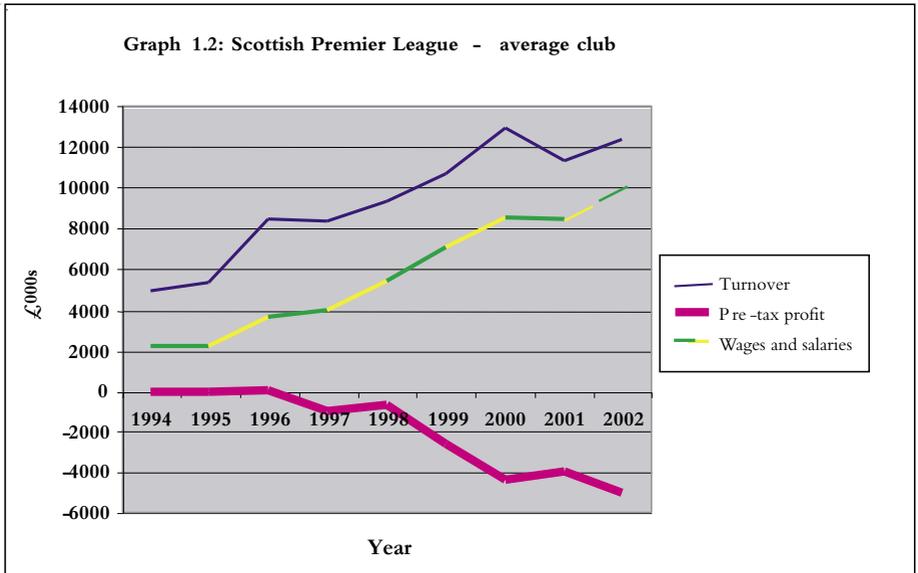
*The Independent, 27th November 2003, p.32*

In the last decade or so, top-level football clubs in the UK have received unprecedented levels of income. Spectator income continues to be a major source of income for most clubs. Other sources have become increasingly important. Most prominent is the rate of expansion in television rights and also commercial partnerships between clubs and non-football organisations and commercial exploitation of improved stadium infrastructure. Paradoxically, the financial performance and position of many of these clubs has deteriorated markedly at the same time. Few clubs report profits: several clubs burdened with high wage costs are facing severe financial problems (see Graph 1.1 for English clubs; Graph 1.2 for Scottish clubs). This pattern has been apparent even for clubs operating in public financial spaces: several Stock Exchange listed clubs have reported losses over recent years. One, Leeds United plc, the listed holding company of Leeds United FC, was placed into administration in March 2004 with net debts estimated at almost £80m. Over the period 1999–2004, twenty-two Football League clubs in England – almost 25% of its membership – experienced a spell in

administration, with three clubs being in administration on two separate occasions in that period (Buraimo *et al.* 2004), while for several months during season 2003/04, three Scottish Premier League clubs, a quarter of the league, were similarly affected (Morrow, 2004).



Source: Deloitte & Touche (1996-2003); Touche Ross (1995).



Source: Price Waterhouse (1995–1997); PricewaterhouseCoopers (1998–2003).

The financial transformation of football in the last decade or so has been extraordinary, manifesting itself in so many aspects of football – player wages, ownership structures, distribution of income, stadium developments, ticket prices and so on. How football, or more accurately, football’s constituencies or stakeholders, should respond to this ongoing economic transformation remains a contested area.

As a business, it could be argued that football’s direction and decision making should now be a function of market economics, with an unfettered market approach being adopted to issues like league structure, distribution of revenues and so on, with the emphasis on business objectives like shareholder value, profit and market share. Yet a more politically informed approach can be adopted which results in football being conceptualised as economic in basis, but social in nature

(Nash, 2000). This approach encourages recognition of the social aspects that delineate football from purely economic activity; that is to identify how its economic basis affects its community – those affected by its actions – or, to use the language of business, its stakeholders.

Football clubs are unusual businesses. The social and/or emotional attachment of many stakeholders to their club can have atypical financial or business implications for clubs. For example, despite the high numbers of clubs which have been in administration in recent years, few clubs have actually ceased trading. The recent history of football in England and Scotland is replete with examples of supporter and community led campaigns to ‘save’ football clubs (see [www.clubsincrisis.com/index.asp](http://www.clubsincrisis.com/index.asp) for an overview). Previous academic studies provide further insight into the distinctiveness of football businesses. For example, De Ruyter and Wetzels (2000) found that the social norm of reciprocity – a sense of indebtedness and feeling of obligation to help the club – and the level of personal attachment to the club were factors which prompted supporters to provide financial support by subscribing for new issues of football club shares. Morrow (2000) found evidence of illiquidity in football club share trading, with supporter shareholders being disinclined to see their shares as marketable assets or to exercise the disciplinary right of exit or sale. However, this emotional commitment should not be equated with submissiveness. Recent evidence suggests increased demand from stakeholders, particularly supporters, for improved public accountability from their clubs. These demands have sometimes arisen directly from ownership rights: many supporters of clubs that became Stock Exchange listed companies in the 1990s took the opportunity to become shareholders at the time of those share issues. More generally, the Government has financially encouraged the *Supporters Direct* initiative, set up to promote and back up the concept of democratic supporter ownership and representation through mutual, not-for-profit trust structures. This has resulted in supporters becoming more engaged with their clubs in a business sense, through collective share purchases, the pooling of individual

shares and wider stakeholder involvement (see, for example, Hamil *et al.* 2001). Over 100 Supporter Trusts have now been established across England, Wales and Scotland. Of these, 57 hold equity in their football clubs, while 37 clubs have supporter representation on the board of the football club ([www.supporters-direct.org](http://www.supporters-direct.org)).

Some evidence is emerging that clubs are beginning to recognise the need to satisfy stakeholder demand for greater financial accountability and transparency. A survey carried out in October 2002 found that nine out of twenty FA Premier League clubs and three out of ten Scottish Premier League clubs were providing on-line annual reports and other financial information on their web sites (Morrow, 2003). The Football Governance Research Centre's report into the corporate governance of football clubs found that clubs believed they encountered little difficulty disclosing information to shareholders - 90% of clubs stated that it was not at all or not very difficult - or in consulting or maintaining a dialogue with the supporter stakeholder group - 94% of clubs stated that they had little difficulty (FGRC, 2003). That said, only 25% of football club shareholders surveyed described their club as being quite, or very, effective at disclosing information to them; while only 40% of supporters surveyed described their club as being quite, very or highly effective at maintaining a dialogue with them (FGRC, 2003).

Corporate annual reports comprise a mixture of quantitative and qualitative information with the qualitative information taking the form of narratives, graphs and photographs. Historically, statutory accounting information was to be found at the end of the annual report, with non-statutory matters occupying a larger front section of the report. In the general corporate environment there has been a trend towards expanded narrative disclosures within annual reports for many years. Lee (1994) noted a growth in the volume of annual reports during the period between 1965 and 1988, with evidence of pictorial forms and product-related matters. The introduction of the Operating and

Financial Review statement of best practice by the ASB in 1993 was a key factor in the expansion of narrative reporting. Beattie *et al.* (2002a) noted that both the absolute and relative size of the non-statutory elements of corporate annual reports have continued to increase in recent years. A recent study by Deloitte (2003) based on 100 listed UK companies found that the average length of annual reports was 65 pages, a rise of 16% since 2000, with a 27% increase between 1996 and 2000. The proportion that did not fall within the scope of the audit report was 53%. It has been argued that accounting narratives in annual reports are little more than public relations documents with little or no substantive content (McConnell *et al.* 1986). But, free from statutory restrictions, narrative disclosure provides an opportunity to communicate information which is not captured in the financial statements; information that may assist users to more fully understand the nature of a company and its future potential and which may help improve accountability. Previous research evidence suggests that discretionary narrative disclosures are valued even by specialist users of annual reports such as financial analysts (Schipper, 1991). Furthermore, narrative disclosure can be designed to highlight the idiosyncrasies of individual companies, a factor that may be of particular significance for atypical companies like football clubs.

The first aim of this study is to monitor the extent of narrative reporting, quantifying changes both in absolute quantity and also the level of disclosure on specific key issues for football club businesses such as wages and salary costs. The study is also concerned with narrative reporting quality. It has been argued that greater visibility and formal public evaluation (for example, through a Stock Exchange listing) increases the size of a company's audience and may stimulate self-presentational behaviour (Aerts, 1994). As mentioned above, despite the unprecedented levels of income in football, the financial position of many clubs is straitened. How is this being described in company narratives? To what extent is the narrative reporting consistent with

the underlying financial performance and position as reflected in the financial statements? The study will test whether the visibility of football clubs combined with the presence of non-specialist users and their demands for accountability, has resulted in football club annual reports becoming places of image management or verbal impression behaviour, resulting in an information gap between the narrative and the quantitative aspects of annual reports.

## CHAPTER TWO

### LITERATURE REVIEW

This chapter sets out the main sources of information and literature which provide the basis of this study into narrative reporting in the annual reports of major British professional football clubs.

#### **The business of football**

One of the main sources of information about football club finances and financial reporting is annual financial reviews of the English and Scottish leagues produced by accounting and consulting firms like Deloitte & Touche and Pricewaterhouse Coopers (various years). Over time these documents have become more detailed and are excellent sources of information about the clubs. However, it is important to bear in mind that these organisations are not necessarily neutral reporters, perhaps acting as consultants and/or advisers to the same clubs and leagues that their reviews are subsequently based upon. Other sources of information about the finances of clubs are specialist publications like *Soccer Investor* and *Football Business International* as well as the mainstream press.

While a substantial body of contemporary academic literature now exists on the economics of football (see, for example, Dobson and Goddard, 2001; The Rimini Group, 2004; Szymanski and Kuypers, 1999), the literature on financial reporting and accounting is more limited. Rowbottom (2003) has looked at discretionary accounting policy choice in accounting for transfer fees, and various aspects of financial reporting and accounting in football clubs have been

considered by Morrow (2003, 1999, 1996). Reporting the business of football has been considered by Boyle *et al.* (2002) and Morrow (2003). Study on narrative reporting in football clubs is limited to Morrow and Hamil's (2003) work on corporate community involvement in football clubs, work that deals in part with narrative disclosure in clubs' annual reports.

A number of researchers have focused on issues of governance and financial regulation in football (see, for example, FGRC 2003, 2002, 2001; Hamil *et al.* 2001, 1999; Morrow, 2000). Some of this work has been influential in a policy sense as evidenced by the setting up of *Supporters Direct*, the government backed initiative designed to encourage football supporters to take an ownership stake in their clubs. There is continuing political interest in this area with the ongoing financial crisis in football prompting debate about the governance and regulation of professional football in both England and Scotland (All Party Parliamentary Football Group, 2004; Scottish Parliament Official Report, 2004).

### **The role and purpose of annual reports**

A substantial literature, of course, exists on the role and purpose of corporate annual reports. Based on a selective examination of research over the period 1990–2000, Stanton and Stanton (2002) identify a number of different research perspectives adopted by researchers working in this area, including image management, marketing, organisational legitimacy, political economy and accountability; some of which have particular relevance to this study. Where an annual report was once seen as a private document used to demonstrate accountability to the owners of a business, it is now described as a mass communication device (Parker, 1982); the most comprehensive document available to the public and therefore the main vehicle of disclosure (Marston and Shrives, 1991); of providing information to

a wide range of groups (Judd and Tims, 1991); and of discharging accountability (Hooks *et al.* 2002).

This broadening of purpose and widening of audience is of particular relevance to football clubs, where the user groups and their information needs will often differ from other companies (Morrow, 1999; Webb and Broadbent, 1986). A particular difference is the supporter grouping. A narrow market-based interpretation may equate supporters simply to customers. Most literature argues that the relationship is much deeper than one of consumption, encompassing aspects of identity, belonging and moral ownership (Giulianotti, 2002; King, 1997). In particular, the intense and usually unvarying loyalty of supporters means that the relationship between club and supporter can have monopolistic attributes with resultant implications for accountability (Morrow, 2003). Football clubs remain for the most part small companies. Arguably, interest in their business or financial behaviour arises out of their perceived social or community significance. As such, investigating information provision in football club annual reports is most appropriately located within a public accountability framework which acknowledges the rights of a broad group of stakeholders to information about company performance and activities (Hooks *et al.* 2002).

This approach is consistent with the draft regulations on the Operating and Financial Review (OFR) published by the Government in May 2004, in which it is proposed to implement a statutory OFR for quoted companies for financial years beginning on or after 1 January 2005 (DTI, 2004). Although the Regulations will only apply to quoted companies, and thus will not be mandatory for the majority of football clubs, nevertheless the regulations are interesting in helping set out current thinking on the role of companies and company reporting. While the draft Regulations make clear that the OFR is addressed to members or shareholders who will hold directors to account<sup>1</sup>, the Government has recognised that the information in the OFR

will be of interest to other stakeholders like employees, customers and other users of annual reports such as those with an interest in the environment (DTI, 2004). More specifically, in addition to these general requirements such as the main trends and factors which are likely to affect their future development, performance and position<sup>2</sup> and the description of risks and uncertainties facing the company<sup>3</sup>, the draft regulations identify social and community issues as being matters that may need to be considered by a company's directors<sup>4</sup>.

As discussed previously, evidence suggests that annual reports are getting longer and that there is an increase in narrative and other qualitative information. From a directors' perspective, narrative disclosure in annual reports may be favoured over other forms of textually-mediated communication because they are directed towards the organisation's stakeholders and because their proximity to the financial statements gives them a form of credibility by association or legitimacy, something not afforded to other forms of organisational communication (Neu *et al.* 1998). That said, in the context of this study of football clubs, other communicative channels exist: the longest standing relationship football clubs have with any form of the media is with the newspapers (Vamplew, 1988), and football remains an important element of print media content and discourse (Crolley and Hand, 2002). More pertinently, newspapers have shown growing interest in the business aspects of sport: titles as diverse as *The Financial Times*, *The Daily Telegraph* and the *News of the World* have journalists or consultants reporting in these areas (Morrow, 2003).

Despite the trend towards longer annual report documents, it remains a selective document: companies choose which issues and social relationships are sufficiently important or problematic to address publicly in the document (Neimark, 1992 cited in Stanton and Stanton, 2002). An extensive analysis of narrative reporting in the food-processing sector carried out by Beattie *et al.* (2002b) concluded that what was presented was both partial - with respect to the elements of

the business reporting model set out in the Jenkins Report - and fuzzy. The possibility of selection or omission is likely to be more evident in those non-statutory sections of the annual report that are subject to minimal audit scrutiny like the Operating and Financial Review and the Chairman's Statement. Selection means that what is omitted from the annual report is as important as what is included (Chatham, 1978 cited in Jameson, 2000; Adams and Harte, 1998).

Another area of interest in the context of this study are papers concerned with impression or image management in narrative reporting (see, for example, Aerts, 1994; Clarke, 1997; Jameson, 2000; Preston *et al.* 1996 and Thomas, 1997). In the context of companies, impression or image management is concerned with organisational actions that attempt to manage the impressions an organisation makes on key audiences (Mohamed *et al.* 1999); to influence the interaction between these audiences and the firm (Smith and Taffler, 2000). One way in which directors or managers can seek to influence the annual report audience is through narrative reporting. Using net income as a proxy for performance, Subramanian *et al.* (1993), found that the annual reports of high-performing companies were not only more readable but were also more forceful than those of lower performers. Similarly, researchers concluded that financial graphs were frequently distorted in order to give a more favourable view of the corporation than was warranted, and that financial graphs were more likely to enhance good news, while minimizing bad news (Beattie and Jones, 2002). One conclusion in Aerts' analysis of attributional comment in a sample of the annual reports of 50 Belgian companies was that there were significant preferences for certain kinds of explanations in particular circumstances (Aerts, 1994). In particular, attribution tended to be used where there was negative financial performance. By contrast, companies were three times more likely to acclaim their own contributions to success than they were to point to external causal factors. Thomas (1997) found that annual reports were carefully written, but language was used to

guide the reader to a particular interpretation. Language was used to suggest and to imply; to blur distinctions about the causes of poor performance and to position the company in terms of its priorities, presenting the company in a positive light.

It has been argued that one consequence of the emphasis on narrative communication in financial reporting is that it has highlighted the activities of spin or image management in the non-traditional (narrative) dimensions of corporate annual reports (Gallhofer *et al.* 2000), a risk exacerbated by the fact these new sites of accounting discourse are subject to minimal audit scrutiny. Smith (1998) argues that potential information or disinformation conveyed by narrative disclosure and the way that this information interacts with traditional qualitative financial information has been overlooked by accounting researchers. Few studies address the annual report document as a whole, in terms of the integration of the messages between the various parts of the report, one exception being Herremans and Ryans (1995) whose work calls for greater integration between those sections of the annual report considered to be the marketers' or public relations' sections (the narrative), and those which are the accountants' sections (the financial statements). Using a sample of companies which exhibited all combinations of positive and negative messages in their narratives and accounting statements, Smith (1998) measured the facility of users to judge different types of accounting information. Agency and signalling theories (see, for example, Watts and Zimmerman, 1986; 1990) might lead us to expect that good financial performance will be associated with clear, confirmatory narrative and that weak financial performance will be accompanied by a narrative message which obscures the communication from the accounting statements with misleading optimism. Smith (1998) provides evidence of a significant conflict between the messages conveyed by the narrative and accounting statements in particular circumstances and he argues that the level of confusion introduced by the narrative, particularly

where an over-optimistic narrative accompanies negative financials, suggests that the narrative should be audited in order to eliminate or reduce the misleading messages they convey. Using content analysis of discretionary narrative disclosures, Smith and Taffler (2000) found that unaudited managerial disclosures in the chairman's statement contained important information associated with the future of the company, not just the past, finding evidence of an association between narrative content and firm failure.

The risks of selectivity and conflicting messages also emerge from studies looking at narrative disclosure on corporate social reporting. For example, social and environmental disclosures by Australian and New Zealand companies tended towards assertion and self congratulation with few if any negative disclosures (Deegan and Gordon, 1996; Hackston and Milne, 1996). A study of the content and accuracy of corporate environmental disclosures by Fekrat *et al.* (1996) found no apparent correlation between disclosure and environmental performance for a sample of 168 companies in six industries and 18 countries. All that said, as Smith and Taffler (2000) note:

*Even were the Chairman's statement to be "massaged" we would anticipate that it would still retain information content, in the manner that fundamental analysis of financial accounting numbers can reveal decision-useful insights despite a high level of creative accounting being practised.*

#### ENDNOTES:

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- <sup>1</sup> Paragraph 1 of Schedule 7ZA inserted after Schedule 7 to the Companies Act 1985 by draft Regulation 7.
- <sup>2</sup> Paragraph 1(d) of Schedule 7ZA inserted after Schedule 7 to the Companies Act 1985 by draft Regulation 7.

- <sup>3</sup> Paragraph 2(d) of Schedule 7ZA inserted after Schedule 7 to the Companies Act 1985 by draft Regulation 7.
- <sup>4</sup> Paragraph 4(c) of Schedule 7ZA inserted after Schedule 7 to the Companies Act 1985 by draft Regulation 7.

# CHAPTER THREE

## APPROACH TO THE PROJECT

This chapter gives details of the aims of the project and of the research approach and methodology adopted.

### **Aims of the project**

The study has four principal aims:

1. To establish the extent to which football clubs' annual reports are reflective of the wider corporate environment; becoming longer documents over time, with increasing emphasis on free-form, less regulated, business narrative.
2. To establish whether narrative reporting is dependent on the type of club such as: considering whether the club is Stock Exchange listed and whether it is English or Scottish.
3. To offer an insight into whether narrative communication about the financial position and performance of football club businesses has become a site of image management; that narrative being used to mask the financial position and performance of football clubs, including those listed on the Stock Exchange.
4. To make recommendations arising from the study's findings.

The study is based upon a sample of thirty clubs over a five-year period. The clubs selected were the twenty clubs in the English FA Premier League and the ten clubs in the Scottish Premier League in season 1997/98. The sample was based upon the annual reports for

the accounting years ending in 1998, 1999, 2000, 2001 and 2002, providing a maximum of 150 annual reports. In practice this number was reduced for two reasons: first, in this time period several clubs had spells in administration and hence no annual reports were available for those years and second, two clubs included no narrative in their annual reports beyond that statutorily required. Where the football club is part of a group of companies (*eg* the parent company of Southampton Football Club is Southampton Leisure; Chelsea Football Club is owned by Chelsea Village, a company that has interests in leisure and hotels *etc.*) the annual reports used were those of the parent company, both for annual report length estimates and for the subsequent content analysis.

### **Research method**

In calculating annual report length the convention set out in Table 3.1 was adopted. Estimates were made on the basis of full pages only, thus some minor classification errors are possible.

**Table 3.1: Annual report measurement convention**

|                                    |   |
|------------------------------------|---|
| Total length of the annual reports | Includes all pages with substantive text on them, whether numbered or not. Excludes pages of football pictures prior to the numbered pages.   |
| Financial statements               | Includes Balance Sheet, Profit and Loss Account, Statement of Total Recognised Gains and Losses, Cash Flow Statement and Notes to the Accounts. Excludes Statement of Directors' Responsibilities and the Audit Report. |
| Statutory narrative*               | Includes the Directors' Report, Corporate Governance Review, Directors' Biographies, and Statement of Directors' Responsibilities.  |
| Free-form business narrative       | Includes the Operating and Financial Review, Business Review, Review of Activities, Financial Director's Review, Chairman's Report, Chief Executive's Review, and the Managing Director's Review.                       |
| Graphics                           | Includes graphics, charts and statistics that are primarily financial.  |
| Social narrative                   | Includes narrative on social activities, community activities and charitable activities.  |
| Other                              | Includes photographs of players or directors, board, Manager's Review of the Season, Audit Report, Contents Page, AGM agenda and List of Advisers.  |

\* Directors' biographies, which are not statutorily required, are included in this section for convenience.

### **Approach to the project**

Content analysis was carried out on each of the available annual reports. The analysis was limited to those sections of the annual report described in Table 3.1 as free-form business narrative; essentially

narrative concerned with operating or financial performance, not statutorily required and outside the scope of the audit report. The recording unit for the analysis began with sentences, but where necessary these were split into multiple units to ensure that each piece of information had a precise meaning that could be matched to a theme and coded as to whether the information was positive, neutral or negative.

The intention was to use mutually exclusive categories to allow a convenient and immediate measure of amount. The highly specialised nature of the football industry meant that commonly used frameworks such as the Jenkins Report framework (AICPA, 1994), which help ensure validity in the classification process, were of limited use in this research. Instead the approach adopted involved the researcher initially identifying themes considered to be of most significance to football businesses. Thereafter, working together, the researcher and the ICAS research assistant carried out preliminary coding on a sample of text at different clubs. However, it was readily apparent that original themes were inadequately specified; some being too narrow, others too general, forcing the researchers into numerous forced coding choices, with inevitable consequences for reliability. As a result the coding process went through an iterative process of revision to deal with these problems. Working together, the research assistant and the researcher revisited the original text samples on a number of occasions and gradually a more detailed and robust set of variables and coding rules evolved (see Appendix one). Inevitably researcher bias remains given that this type of content analysis depends on the judgement and interpretation of the researchers (Weber, 1990). However, as Krippendorff (1980) notes, content analysis based upon thematic units requiring user judgement of messages conveyed in the narratives is often preferable despite the difficulties of applying it in practice.

The Cohen's Kappa statistic was subsequently used formally to determine reliability. This statistic assumes that there are two coders

operating independently, that the units of analysis (the annual reports) are independent and that the themes are independent, mutually exclusive and exhaustive. The assessment was carried out using the Chairman's Report for two clubs; one large club and one small club, with the text therein being independently coded by the researcher and the research assistant. A Cohen's Kappa coefficient of 0.83 was calculated for this sample of text and although there is no conventional level of acceptability, minimum levels are usually considered to be values greater than 0.75 (Capozzoli *et al.* 1999) or 0.80 (Krippendorff, 1980; Riffe *et al.* 1998).

The data to be analysed was assumed to be normally distributed, with a constant variance. The procedure known as the Analysis of Variance or ANOVA was used to test the equality of means for each of the five years, with repeated measures ANOVA being used to test whether there were changes over the five-year period. Repeated measures ANOVA is used when all members of a random sample are measured under a number of different conditions, in this case different years. As the sample is exposed to each condition in turn, the measurement of the dependent variable is repeated.

## **Limitations**

As noted above, one limitation of the study is the risk of researcher bias common in manual coding content analysis which relies on the judgement and interpretation of the researchers. Every effort was made to minimise this risk in terms of the procedures followed by the researcher and the research assistant.

In terms of sample size and integrity a limitation arises from the effect of promotion and relegation within football leagues. Inevitably clubs which participated in the FA Premier League and Scottish Premier League in season 1997/98 were not precisely the same clubs that participated in these leagues in subsequent seasons.

For example, five of the twenty English clubs in the original sample were playing in Division One by season 2001/02, with one of those clubs, Barnsley, finishing that season by being relegated to Division Two. At the same time the financial statements of Stock Exchange listed clubs like Charlton Athletic and Sunderland<sup>1</sup>, as well as those of clubs with dominant owners like Fulham (Mohamed Al-Fayed) and Middlesbrough (Steve Gibson) were not included in the sample as they were not in the FA Premier League in 1997/98. The fact that 25% of the English sample has dropped a division during the time period has implications for the analysis, particularly as turnover is substantially greater in the FA Premier League than in lower divisions. In Scotland the changes are less extreme. The Scottish Premier League was increased in size from ten to twelve clubs in season 2000/01, one consequence of which is that all ten clubs in the original sample were in the SPL in season 2001/02, though clearly not all clubs retained their membership over the entire five-year period. However, the small number of Scottish clubs sampled is a limitation in itself, particularly in terms of the validity of inter-country comparisons.

**ENDNOTE:**

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<sup>1</sup> Sunderland plc delisted from the Stock Exchange in July 2004.

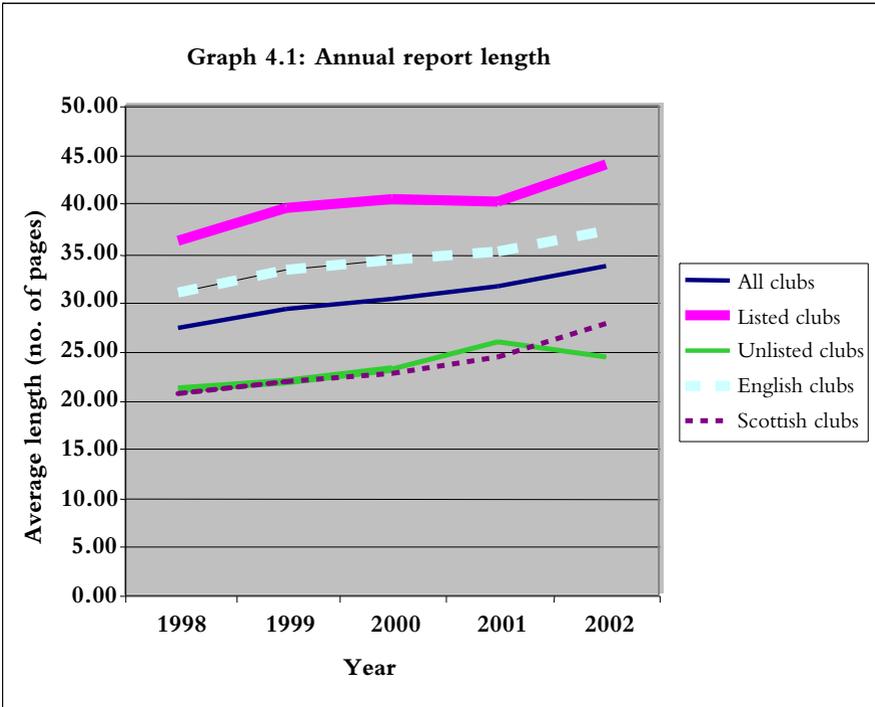
## **CHAPTER FOUR**

### **RESULTS AND ANALYSIS**

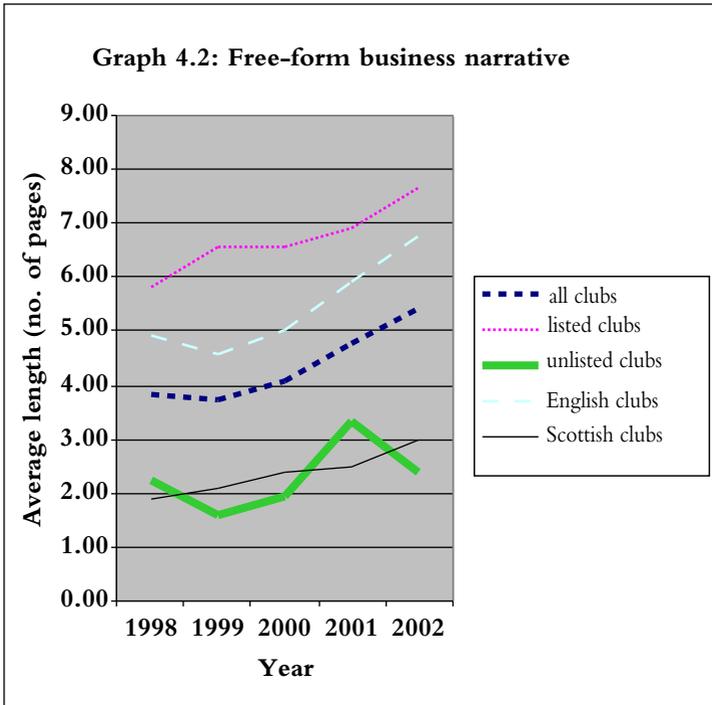
This chapter gives details of analysis of the annual reports of major British professional football clubs. The chapter focuses initially on charting changes in the length and content of these documents before going on to provide a systematic analysis of the unaudited narrative comment in the annual reports.

#### **Length and disclosure**

In the five-year period covered by this sample the average length of football club annual reports increased from 27.2 pages to 33.7 pages; an increase of 24%. The largest percentage increase in length over the period was for Scottish clubs, which saw a 35% increase in length from 20.5 to 27.7 pages; while the longest reports throughout the period were those of listed clubs which increased from 36.2 to 43.7 pages, a rise of 21%. The full details are set out in Appendix two and summarised in Graph 4.1.



The results for free-form business narrative show a similar upward trend with the average length for all clubs increasing from 3.8 pages to 5.4 pages, a 41% increase over the period (see Graph 4.2).



Analysis was carried out on measures of the length of the documents – total length and free-form business narrative length – and on measures of disclosure – the number of text units in total and the number of financial text units (variables A, B, C, D and F – see Appendix one). The results were analysed taking each of the years separately and then taking all five years together.

Looking first at the changes over the five-year period, as expected, those clubs operating in a more public space, tended towards longer annual reports, with longer narrative sections therein. These clubs also tended to have higher levels of disclosure as measured by the total number of text units and the number of financial text units, while there was also evidence of increased length and increased disclosure over time,

subject to the footnote to Table 4.1. However, while English clubs' reports are longer and have longer free-form narrative sections therein, no significant differences emerged between England and Scotland with regard to the disclosure of text units for the variables selected.

**Table 4.1: Significant relationships (repeated measures)**

| <b>Factor</b>                           | <b>Total length</b>                          | <b>Narrative</b>                            | <b>Text units</b>                              | <b>Financial text units</b>                    |
|---|--|---|--|--|
| Country (English clubs/ Scottish clubs) | English clubs significantly longer (p=0.001) | English clubs significantly longer (p=0.02) | -  | -  |
| Public space (Listed/ unlisted)         | Listed clubs significantly longer (p<0.001)  | Listed clubs significantly longer (p=0.013) | Listed clubs have significantly more (p<0.001) | Listed clubs have significantly more (p<0.001) |
| Year                                    | Reports getting longer over time (p=0.003)   | - <sup>1</sup>                              | Number increasing over time (p<0.001)          | Number increasing over time (p<0.001)          |

<sup>1</sup> Marginally no significant time effect (p=0.055)

**NOTES:**

- Total length                    length of the annual report
- Narrative                        length of the free-form business narrative sections in the annual report
- Text units                         number of text units
- Financial text units            number of financial text units

Looking next at the years taken individually, what the results indicated is that, for all five years, public space (whether a company is listed or not) was the principal explanatory variable in determining the length of the annual report, the length of the free-form business narrative sections and the quantity of disclosure, both the number of text units in total and the number of financial text units; being significant at the 5% level on each occasion (see Table 4.2). In other words, those clubs which are listed companies have longer annual reports, more free-form narrative communication and greater levels of disclosure on the identified variables.

**Table 4.2: Significant relationships each year (ANOVA)**

| <b>Factor</b>                                 | <b>Total length</b>   | <b>Narrative</b>   | <b>Text units</b>   | <b>Financial text units</b>   |
|---|---|--|---|---|
| Country<br>(English clubs/<br>Scottish clubs) | English clubs significantly longer for year ends 1998–2001 ( $p < 0.01$ ) | English clubs significantly longer for year end 1998 only ( $p < 0.05$ ) | –   | –   |
| Public space<br>(Listed/<br>unlisted)         | Listed clubs significantly longer for all five years ( $p < 0.001$ )      | Listed clubs significantly longer for all five years ( $p < 0.05$ )      | Listed clubs significantly longer for all five years ( $p < 0.05$ ) | Listed clubs significantly longer for all five years ( $p < 0.05$ ) |

The role of country is more mixed. Looking first at total length of the annual reports, country is significant at the 0.01% level for the years 1998–2001 (English clubs having longer annual reports), but not for 2002; while for free-form business narrative, country is only significant at the 5% level in 1998. No significant relationship was found between country and the disclosure of text units, either in total

or for financial text units only, in any of the five years. Furthermore, no interaction between country and public space was evident for any of the variables.

## **Discussion**

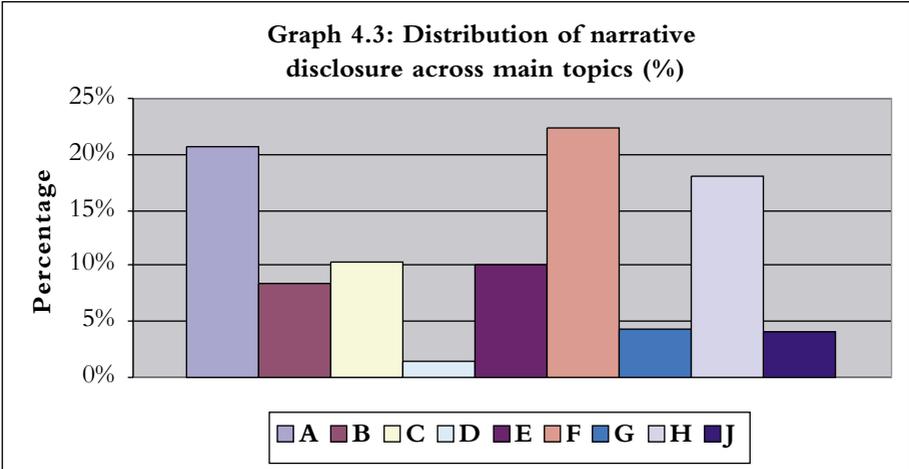
Over the time period of this study, the evidence suggests that clubs' annual reports are getting longer, accompanied by increased disclosure. Furthermore those clubs which are listed companies have longer annual reports, more free-form narrative communication and greater levels of disclosure on the identified variables. Two factors are particularly important in explaining these trends; first, business growth and second, audience awareness. As was shown in Graphs 1.1 and 1.2, the period of study for this research has been an expansionist one in terms of income generation in the industry, with the increased value of television rights being the principal driver of revenue growth in football businesses. A symbiotic relationship has developed between television and football in the last decade or so: while the money earned from television rights has become a vital income stream for football clubs, concomitantly football has become crucial to television's business model. This close relationship arguably manifests itself in other ways such as greater visibility for clubs and intensified public interest in them. From a narrower perspective it is clear that a Stock Exchange listing has resulted in football clubs becoming more visible as businesses. This has widened the audience for financial information about them, resulting in more detailed scrutiny of their financial performance and related disclosure. The evidence in this study indicates that one of the ways that clubs have responded to these developments has been through providing additional disclosure – financial and narrative – about the company's performance, position and its future plans.

Looking at the differences between countries, while the annual reports of English clubs tend to be longer and to have longer narrative

sections, not all of the differences reported were statistically significant. Furthermore, no significant differences were reported in respect of disclosure. Two factors may be relevant in helping to explain this mixed picture. First, as discussed in chapter three, the relatively small number of Scottish clubs in the sample may limit the validity of the results. In particular, it should be noted that where the results are analysed in respect of each year taken separately, the maximum number of clubs in the Scottish sample is ten. Second, 20% of the clubs in the Scottish sample – that is two clubs, Celtic and Rangers – are major clubs in terms of turnover and public interest, comparable to the very biggest clubs in England. Clearly their presence in the sample makes analysis less straightforward.

### **Content analysis**

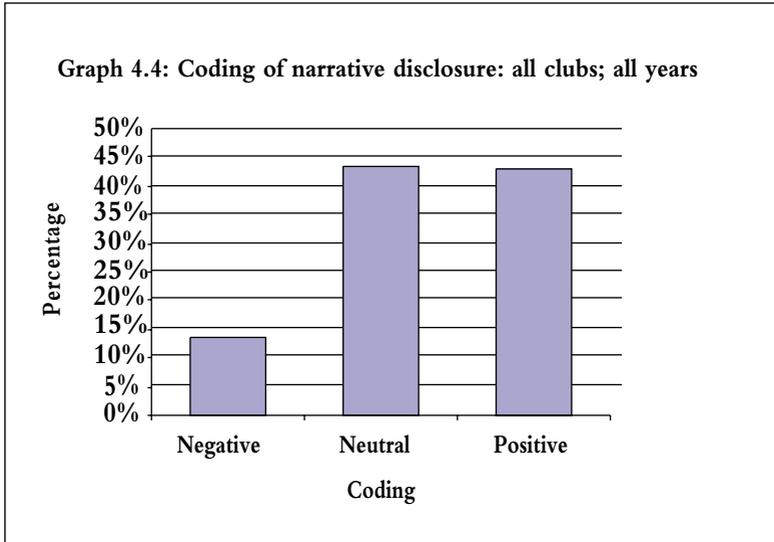
This study seeks to provide a systematic analysis of unaudited narrative comment in the annual reports of major British football clubs. Over the five-year period, 3,317 text units were identified for the nine variables set out in Appendix one; the topic distribution is set out in Graph 4.3. Of these 3,317 text units, only 14% were coded as negative statements, with the balance being almost evenly split between neutral and positive statements (see Graph 4.4).



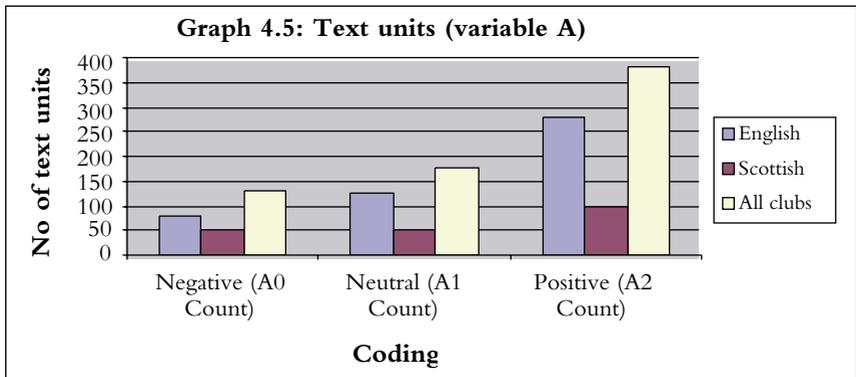
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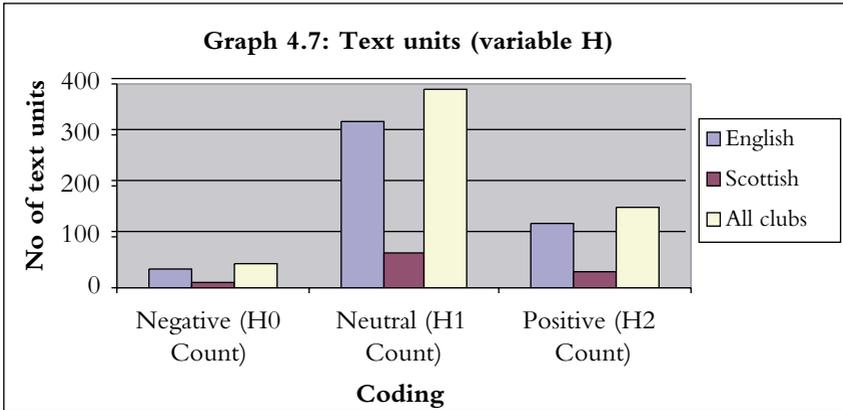
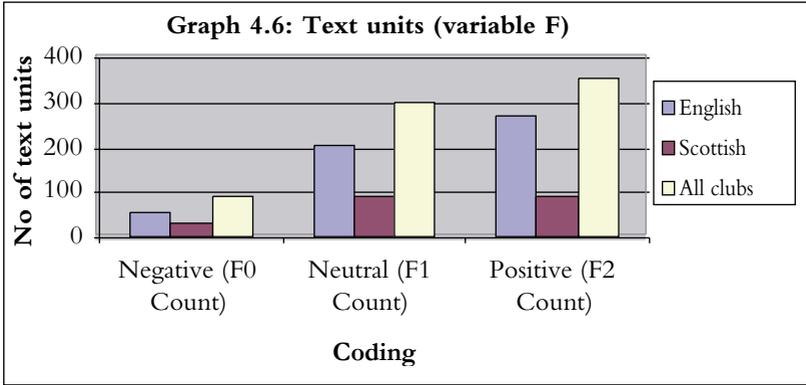
| <b>Code</b> | <b>VARIABLE</b>                                      |
|-------------|--|
| A           | Financial performance in year under review           |
| B           | Debt levels, financing                               |
| C           | Wages and salaries                                   |
| D           | Historical logic                                     |
| E           | Youth development                                    |
| F           | Future – performance, revenues                       |
| G           | Capital investment - development                     |
| H           | Player investment                                    |
| J           | Capital investment - stadium, other capital projects |

---



The largest number of text units was for variables A, *Financial performance in year under review*, (21%), E, *Future – performance, revenues* (22%), and H, *Player investment* (18%). Graphs 4.5–4.7 set out the distribution of positive, neutral and negative statements for these three variables.





As shown in Graphs 1.1 and 1.2, this period has been one in which turnover has grown rapidly for major British clubs, particularly English clubs. But it is also a period in which very few clubs have been able to generate profits - over the five-year period, 67% of clubs in the sample reported pre-tax losses, and for the final three years of the period the proportion rises to 82% - and report record levels of indebtedness. Yet, as Graphs 4.4 - 4.7 demonstrate, disclosure is skewed towards neutral and positive text units. Consistent with previous studies of narrative

reporting, one conclusion from this evidence is that there is a tendency for selective narrative disclosure. The narrative is concentrating on information which can be reported as good news, such as improved television deals, but with little or no emphasis on equally important but less palatable information such as, for example, disproportionate increases in wages and salaries costs. As Smith (2003) notes:

*If a chairman does not discuss profits and dividends at length, this omission itself is a cause for concern.*

Evidence also exists of image management. A key audience for a football club is clearly its supporters; a key concern of many supporters is player acquisitions. One interpretation of the evidence set out in Graph 4.7 for variable H (Player investment) in particular, is that the narrative disclosure is being used to manage the impression the club makes on this key audience. For example this may be achieved by emphasising things like new players acquired by the club, while disclosing little or nothing about the financial imperative to cut squad sizes.

## **Matching**

Nowhere are the changes which have affected top level football over the last decade or so more visible than in the status of players. Legal intervention, most notably the landmark ruling in the Court of Justice of the European Communities in the Bosman case (CJEC, 1995), followed up in March 2001 by changes to the transfer system agreed between FIFA, UEFA and the European Commission after six months of fractious negotiations (see, for example, Morris *et al*, 2003) has resulted in players having greater freedom of movement and bargaining power than ever before. Coupled with the substantial increases in revenue being enjoyed by major leagues in Europe – revenue increases largely fuelled by television rights – this has resulted

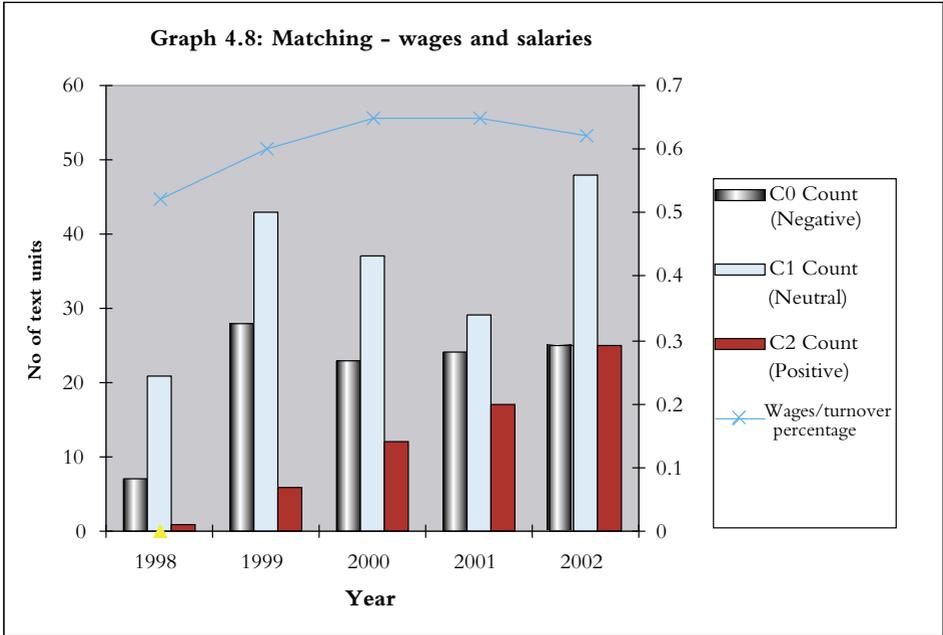
in elite players finding themselves in a position to capture substantially improved economic rewards. Hence, spending on player wages and salaries has become a key issue for football clubs in recent years and is a major determinant of the financial performance of clubs. In the FA Premier League, total wages and salaries for the 2001/02 season were £706m, a 25.6% rise on the previous season. The corresponding figure in the first season of the FA Premier League (1991/92) was £75m, while the compound annual growth rate over the ten years since the inception of the league is 25.1%, outpacing that for turnover by four percentage points over that period (Deloitte & Touche, 2003). Attention has focused on the relationship between wages and salaries costs and turnover. For a number of years consultants like Deloitte & Touche have been advocating that the wages to turnover percentage should not exceed 70%. More recently there have been widespread calls for salary caps to be introduced and indeed caps, or perhaps more accurately, mechanisms of voluntary wage restraint have now been introduced in some leagues. For example, the English Nationwide Division Two (now known as the Coca Cola League One) introduced a soft salary cap for its clubs in season 2003/04, which limited a club to spending 60% of its turnover on player wages and 70% of the overall wage bill. A salary cost management protocol scheme was introduced in what was Division Three of the English Football League (now known as League Two) in seasons 2003/04. This limited a club to spending 60% of its turnover on player wages. This is still in place for season 2004/05 and has been extended to clubs in League One (previously known as Division Two).

This commonly used proxy or benchmark for control of wages and salaries provided the basis for investigating the extent to which there was evidence of correlation or matching between narrative disclosure about this particular theme (variable C) and the underlying figures reported *ie* changes in the proxy financial variable (the wages/turnover percentage). Put simply, one might expect a rising trend in the wages/

turnover ratio at clubs to be accompanied by more C0 (concern about wages and salaries) comments or less C2 (satisfaction with the results) comments; *vice versa* for a falling trend.

Graph 4.8 sets out the relevant text unit counts and wages/turnover calculations for the sample of clubs. Analysis was carried out on different subsets of the data: taking all five years' data together first for all clubs; then for all English clubs; finally for all Scottish clubs. Although the sample is not made up of independent observations in that each club can appear a maximum of five times, in view of the limited number of C variable observations the data has been treated as one sample to provide an overview of any underlying relationships.

One thing to note is the relatively small number of text units reported for variable C in 1998 in Graph 4.8. Two factors may be relevant in helping to explain this. First, as discussed previously in this chapter, over the time period of the study significant increases were reported in both the number of text units and the number of financial text units (see Table 4.1). Second, arguably wages and salary costs were not as serious a concern for clubs in 1997/98 as they have subsequently become. While wages and salary costs have grown steadily since the ruling in the Court of Justice of the European Communities in the Bosman case (CJEC, 1995), in 1997/98 total wages and salaries for the clubs in the sample were only £348m, equivalent to 52% of turnover. The following year later this had risen to £441m (a rise of 27%), equivalent to 60% of turnover.



As the data is not normally distributed, the non parametric Spearman correlation was used to test for an association between changes in the wages/turnover percentage and the incidence of negative (C0) or positive (C2) counts for the C variable. Two significant relationships were identified at the 5% level, both for C2 counts: first, for all clubs, an inverse correlation of  $-0.215$ ; second, for English clubs only, an inverse correlation of  $-0.231$ . Looking at each year in turn, significant relationships at the 5% level were identified for C2 counts for 1999, 2001 and 2002 (all club sample) and for 1999 and 2001 (English clubs only). No significant positive correlations were identified for C0 counts for any of the data samples.

The relationship between narrative and financial disclosure can also be investigated at the level of individual clubs. However, using the non-parametric Spearman correlation, only two significant results were identified from the sample of thirty clubs, with even these results being

the opposite of what might have been expected. A strong negative correlation (-0.894) between C0 counts and the wages/turnover ratio, significant at the 5% level, was identified for Arsenal (*ie* higher wages/turnover percentages being accompanied by fewer C0 text units) while a strong positive correlation (0.894) between C2 counts and the wages/turnover ratio, significant at the 5% level, was identified for Heart of Midlothian (*ie* higher wages/turnover percentages were accompanied by more C2 text units). These findings could be due to the small sample size (5).

Certainly given the small number of observations there are risks in generalising from the results obtained. Even so, given the fundamental importance of wage control to clubs' financial health, the absence of any detectable relationships between C0 text units and the proxy variable for wage control is a cause for concern. No evidence of an increase in C2 type comments designed to deflect attention from poor wages/turnover ratios was detected. Nevertheless, the contrast between the significant correlation reported for lower wages/turnover ratios and positive, confirmatory narrative and the absence of such a correlation for higher ratios and negative comments at the very least suggests lack of balance in the clubs' narrative reporting.

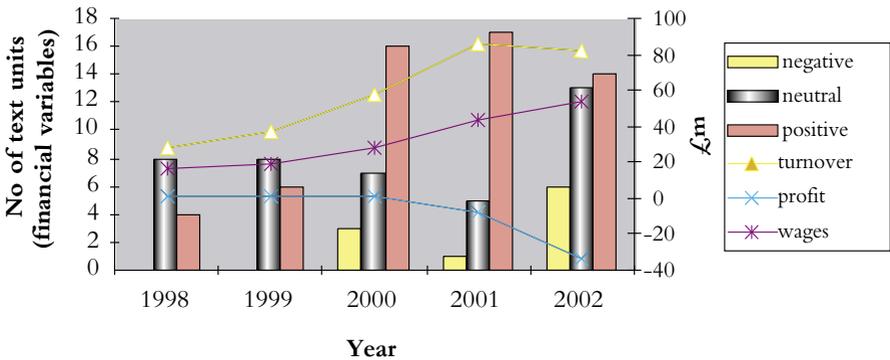
### **Case studies: clubs in trouble**

In this section, the relationship between narrative and accounting performance is considered further for two Stock Exchange listed clubs, Leeds United and Leicester City. Both have had severe financial difficulties during the five-year period.

In recent years Leeds United has enjoyed something of a roller coaster ride on and off the field. An ever-present member of the FA Premier League since its inception in 1992, the club was taken over by the media company Caspian in 1996 and was subsequently listed on the London Stock Exchange. The club appointed David O'Leary

as its manager in 1998 and with the sanction of the board of directors he invested heavily in the transfer market. Success on the field initially followed with the club reaching the semi finals of the UEFA Cup and the UEFA Champions League in seasons 1999/2000 and 2000/01. However, failure to reach the Champions League the following season coupled with imprudent financial management culminated in the club's parent company, Leeds United plc, being placed in administration in March 2004 with net debts estimated at almost £80m and the club being relegated to the Nationwide Division One at the end of season 2002/03 (see Gerrard, 2004 for a more detailed commentary).

**Graph 4.9: Leeds United - comparison of narrative with financials**

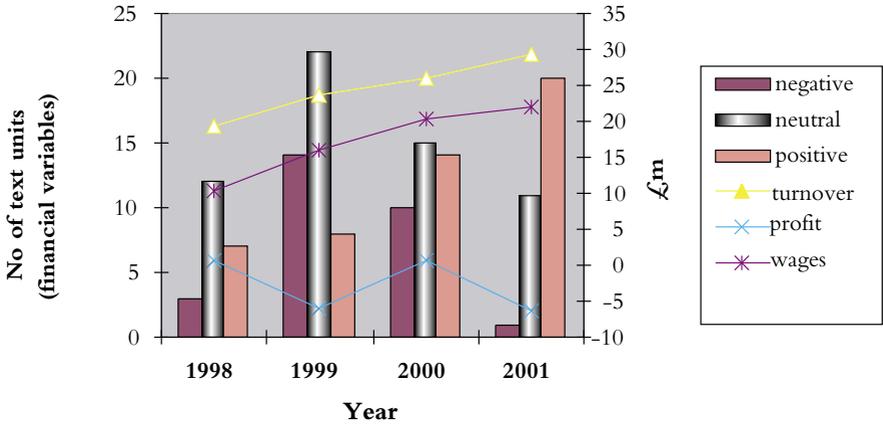


Graph 4.9 provides some insight into the relationship between Leeds United's financial results and its narrative disclosure for the financial variables (A, B, C, D and F – see Appendix one) over the five-year period. What is immediately apparent is how few negative text units were identified for any of the financial variables, despite its high wages/turnover percentage and its falling pre-tax profit. Other

accounting numbers make this absence even more surprising: by the 2002 year end its net asset value had collapsed to £1.4m (2001, £35.3m); its long term liabilities had risen to £82.3m (2001, £43.1m) and its gearing ratio had risen to 98.3% (2001, 55.0%). Yet, as Graph 4.9 demonstrates, more than twice as many positive financial text units were identified compared to negative ones even in 2002. In view of the financial position and performance being reported, it is somewhat difficult to comprehend on what basis the directors saw so many opportunities for positive narrative comments.

Leicester City, historically, has been one of English football's yo-yo clubs, with numerous promotions and relegations between England's top two divisions. Nonetheless, the club did manage to retain its Premier League status from the 1996/97 season until it was relegated at the end of the 2001/02 season. Off the field Leicester City plc listed on the Stock Exchange in October 1997. The next few years saw considerable boardroom strife behind the scenes and a struggle for control of the club. One of the reasons behind its flotation was to allow it to expand its spectator capacity. A decision was subsequently taken to build a new stadium. Building began on the Walkers Stadium in 2001. The project was financed in part by a £28m private placement bond securitised on future gate receipts and television income. The club's relegation at the end of the 2001/02 season, combined with the collapse of the deal between the Nationwide Football League and ITV Digital, resulted in the club being forced into administration in October 2002. Debts were estimated at £50m and included outstanding bank loans for player acquisitions as well as its stadium debt (Banks, 2002). It emerged from administration in February 2003 after being taken over by a consortium led by former Leicester player, Gary Lineker, and backed by a newly established Supporters' Trust. It successfully won promotion back to the Premier League at the end of the 2002/03 season, only to be relegated the following season.

**Graph 4.10: Leicester City - comparison of narrative with financials**



Graph 4.10 provides some insight into the relationship between Leicester City’s financial results and its narrative disclosure for the financial variables (A, B, C, D and F - see Appendix one) over the four-year period prior to its administration. Two things stand out on the graph: first, the apparent correlation between turnover and positive financial text units; and second the very small number of negative text units identified in 2001. Notwithstanding that key events in Leicester’s financial difficulties, notably relegation and the collapse of the ITV Digital deal, did not take place until after the 2001 year end, once again it is somewhat difficult to comprehend how the directors could have interpreted the club’s position, performance and prospects in such a positive light at the time of preparing the narrative for the 2001 annual report. The financial statements therein reported a pre-tax loss of £6.4m; an accumulated deficit on its profit and loss account which had risen to £14.9m and a bank overdraft which had risen from £2.9m to £8.3m over the last twelve months. But perhaps most pertinent of

all, by the time the 2001 accounts were signed off the club was already sitting at the bottom of the Premier League, having accumulated only five points from eight games, a fact which, though disclosed, was not put into any kind of financial context.

## CHAPTER FIVE

### CONCLUSION

*But did outsiders such as fans and the media really know what was going on? 'It was all in the annual reports. We didn't hide things. We used to win awards for our annual reports, for the amount we disclosed.'*

Peter Ridsdale, former Chief Executive, Leeds United plc  
*Observer Sports Monthly*, 7<sup>th</sup> March 2004, p. 26

This chapter summarises the main conclusions arising from the empirical study of the narrative sections of the annual reports of major British football clubs. The aims of the project were:

1. To establish the extent to which football clubs' annual reports are reflective of the wider corporate environment; becoming longer documents over time with increasing emphasis on free-form, less regulated, business narrative.
2. To establish whether narrative reporting is dependent on the type of club such as: considering whether the club is Stock Exchange listed and whether it is English or Scottish.
3. To offer an insight into whether narrative communication about the financial position and performance of football club businesses has become a site of image management; that narrative being used to mask the financial position and performance of football clubs, including those listed on the Stock Exchange.
4. To make recommendations arising from the study's findings.

The last decade or so has seen a new business era for football clubs. One of most important contributory factors has been television, particularly satellite television, both in terms of much improved television deals and also through broadcasters acting as catalysts for change in the structure of the game. Income has grown markedly particularly for English clubs: the annual rights fee for the FA Premier League in the period 2001/04 was £450m, compared to £43m for the first deal with BSkyB which began in 1992. By contrast the annual rights fee for the two-year deal between the BBC and the Scottish Premier League which ran until the end of the 2003/04 season was only £8.5m. But business developments have not been restricted to income generation: for example, the mid to late 1990s saw share issues and Stock Exchange listings for several top football clubs while alterations to the football transfer system have given players greater freedom of movement and contractual bargaining power.

Over the five-year period of this study (from 1997/98), football club annual reports have followed the trend in the wider corporate environment, becoming longer documents, with increasing emphasis on free-form or business narrative. Given that the period of study for this research has been an expansionist one in terms of income generation in the industry the increased length of the annual reports and the narrative sections therein is unsurprising. As the results show, those clubs that are Stock Exchange listed and which, thus, operate in the most public business spaces tend to have longer annual reports, with more free-form business narrative. Similarly, the fact that the annual reports of English clubs tend to be longer than Scottish clubs can be seen as unsurprising given that top division clubs in England earn substantially more than similar clubs in Scotland, a major factor being the more lucrative television deal enjoyed by the FA Premier League in England.

But, the rapid growth in income over the period of the study has not equated to financial success, with very few clubs being able to

translate that increased income into profit. The principal explanation is that many clubs have spent beyond their means on player salaries. Yet, despite this poor financial performance, the narrative reporting on a variety of variables over this period has been highly skewed towards positive commentary. The evidence presented in this study of major British football clubs is consistent with previous studies into narrative reporting in other industries, with indications of selectivity in disclosure and of image management. The evidence suggests that the narrative is focused on information which can be reported as good news, such as improved television deals, with little or no emphasis on equally important, but less palatable information such as, for example, disproportionate increases in wages and salary costs. Furthermore, a detailed study of the disclosure on clubs' wages and salaries suggests an inconsistency between the underlying financial performance and position and the accompanying narratives.

These findings, taken together with evidence such as that provided by Bartlett and Chandler (1997) which reported strong private shareholder preference for narrative sections of the annual report, have implications for accountability and for communication. Private shareholders are dominant in the ownership of football clubs, but more than that, these organisations have some of the most committed and engaged stakeholders in the form of their supporters, some of whom may also be shareholders. Indeed, this commitment and passion and its putative manifestation into pressuring for success has been used in the recent past by directors of underperforming clubs to help rationalise poor financial performance and/or poor decision making. Two examples are Leeds United, whose former Chief Executive famously 'lived the dream', a dream which resulted in the club's financial collapse and Rangers:

*I have to hold my hand up and say I was chairman of the board. I was therefore accountable for the strategy and to that degree should be criticised. But it was a board of five strong people ... There wasn't*

*a single player bought or sold without the whole board debating and approving it.*

*And responsibility does not end there: Supporters, shareholders, the press, the manager, nobody was saying don't do it.*

Peter Ridsdale, former Chief Executive, Leeds United plc,  
*Observer Sports Monthly*, 7<sup>th</sup> March 2004, p.26

*I think football has gone through a revolution financially and we as a club were obviously caught up in chasing a dream. Perhaps we spent too much money doing that, but we all bought into it at the time.*

David Murray, Chairman, Rangers plc  
*The Scotsman*, 2<sup>nd</sup> September 2004, p.62

It is true that football club directors have to cope with a unique business model. It is also likely that most football supporters prefer greater on-field success than less. But, when appropriately informed about the financial realities at their clubs, there is no evidence to suggest that supporters do not have the capacity for rational behaviour. By the same token giving emotionally involved supporters an unbalanced narrative about the club's position and prospects requiring the discharge of financial prudence and common sense is simply iniquitous.

## **Policy recommendations**

However structured, football club businesses exist in a very public space. Their performance is of interest not only to shareholders but also to supporters, as well as to other groups within the community, to the press and even to politicians. In this context, narrative reporting is important from both accountability and disclosure perspectives. As demonstrated in the Government's proposals for the OFR, an

increase in narrative reporting offers an opportunity for companies to communicate a wide range of factors that have affected, or may affect, their performance to a broad range of interested stakeholders. This disclosure may help meet the demands for improved and more public accountability from football stakeholders, particularly the supporter grouping. Moreover, narrative reporting provides a means to reduce conflict between directors and supporters, providing directors with an opportunity to better inform stakeholders about the financial realities of clubs, which in turn may act to reduce unrealistic supporter expectations. But for this to be achieved, it is essential that directors ensure that the narrative presented in the annual reports is more balanced and less partial than the evidence from this study suggests and that the annual report sends out a more coherent message. Narrative reporting is about communication, accountability and education. Given the public space within which football clubs operate, improved narrative disclosure is in the best interests of all football club stakeholders, whether motivated by financial objectives, football objectives or a combination of both.

The findings of this study have implications beyond football clubs. While the public interest in football clubs may be disproportionate to their financial importance, the pressure to perform and to disclose that performance is likely to be felt by directors of companies in most areas of economic activity. In view of this, other types of business may be susceptible to selectivity in disclosure and image management. Notwithstanding the call for best practice as set out above, the Government's proposals for the OFR make it clear that auditors have a critical role to play in providing assurance to stakeholders that the financial reporting document has been prepared in a careful and balanced manner (DTI, 2004). While the role is restricted to expressing an opinion on the process that has been followed in producing the OFR rather than on the content itself (and only for listed companies), nevertheless the Government has accepted the recommendation of

the Company Law Review that auditors must satisfy themselves that ‘adequate, supportable information was considered in making their decisions as to inclusion of information [in the OFR]’, and that they should review the OFR for ‘consistency with [their] knowledge from the audit of the accounts (including consistency with the financial accounts themselves)’ (DTI, 2004). These requirements are set out in subparagraphs 3A (a) and (b) to be inserted in section 235 of the Companies Act 1985<sup>1</sup>. While this requirement to compare the substance of the OFR with the results of the audit should result in users having a fuller understanding of whether the totality of disclosures made by directors provides a true and fair view of the company, it has been argued that, since the Companies Act 1985 already requires auditors to read the directors’ report for consistency with the financial statements, sub-paragraph 3A, should not be too problematic for auditors (Roslender *et al.* 2004). Difficulties though remain, not least that while directors are legally obliged to describe all the factors which could be expected to have a bearing on the prospects of the company, precisely what is included in the OFR remains a matter of judgement for directors.

Related to this, the Government’s intention to extend the rights of the Financial Reporting Review Panel (FRRP) under sections 245B and 245C of the Companies Act 1985 to allow it to review the OFR and the Directors’ Report and apply to the courts for an order to revise these if they are found to be defective, may be of interest. As part of the Panel’s process in selecting financial statements for review, a standing advisory group has been set up by the Financial Reporting Council to advise it on identifying areas of contemporary risk as part of its process in selecting financial statements for review. Two principal criteria to be applied as part of this risk assessment are the probability of misstatement occurring and the potential impact of misstatement on the confidence and economic decisions of the investing and broader stakeholder community. While listed football clubs may not

be significant in terms of business size, nevertheless, the findings of this report, coupled with widespread public interest in football clubs, suggest that it may be appropriate for listed football clubs to be targeted by the FRRP at some point in the future.

## Further research

Following on from this study, two issues can be identified which would benefit from further research. First, although many football clubs are outwith the scope of the requirements set out in the proposed Operating and Financial Review, the implications of the new framework in terms of improving best practice may be expected to extend beyond listed companies. Hence, a follow-up study of narrative disclosure in football clubs is likely to be of interest once the new regulations have become adopted by companies. Second, the findings of this study, taken together with the number of football clubs that have gone into administration in recent years, present an opportunity to examine the existence of an association between narrative content and firm failure, building on the previous research exploring whether a firm's discretionary narrative disclosures measure its financial risk of bankruptcy (Smith and Taffler, 2000).

## ENDNOTE:

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<sup>1</sup> (3A) If the company is a quoted company, the auditors must state in their report:

- (a) whether in their opinion the information given in the operating and financial review for the financial year for which the annual accounts are prepared is consistent with those accounts; and
- (b) whether any matters have come to their attention, in the performance of their functions as auditors of the company, which in their opinion are inconsistent with the information given in the operating and financial review.

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## APPENDIX ONE

### CONTENT ANALYSIS VARIABLES AND CODING RULES

| <i>Code</i> | <i>Variable</i>  |   |
|-------------|--|---|
| <b>A</b>    | <b>Financial performance in year under review</b>  |   |
|             | Text units concerned with the organisation's overall reported results; may deal with issues like cost control; financial planning; income generation in the context of the year under review; not including comments on specific cost control issues like wages and salaries (c) or expectations about the future financial performance of the club (f). |   |
|             | <b>Description</b>   | <b>Example</b>  |
| A2          | Satisfaction with present results or expectation of improvements in the future.  | In all respects the key performance indicators are positive for the Company.<br>(Heart of Midlothian plc, Chief Executive's Review, 1998)   |
| A1          | Factual or passive representation of current situation   | The company continues to trade in-line with our expectations although we remain mindful of the prevailing difficult economic conditions.<br>(Tottenham Hotspur plc, Chairman's Statement, 2001)   |
| A0          | Concern, disappointment expressed about the present situation; admission, recognition of difficulties.   | This change in financial circumstances was entirely due to the footballing performance which led to a fall in the Club's share of the Premier League's media income and a reduction in other revenues such as ticket sales and sales from our retail outlets. (Sheffield Wednesday plc, Chairman's Statement, 2000) |

| <i>Code</i> | <i>Variable</i>  |  |
|-------------|--|--|
| <b>B</b>    | <b>Debt levels, financing</b>  |  |
|             | Text units concerned with the organisation's level of indebtedness or its debt management policies; its financial structure; share price issues; wider implications for shareholder value. |  |
|             | <b>Description</b>   | <b>Example</b>   |
| B2          | Satisfaction with present results or expectation of improvements in the future.  | We start the period with a strong balance sheet following last year's capitalisation of shareholder loans. (Blackburn Rovers Ltd, Business Review, 2001).  |
| B1          | Factual or passive representation of current situation.  | Under the agreement Granada Media made an initial investment of £47 million in return for 5 per cent of the enlarged share capital. (Arsenal Holdings plc, Chairman's Report, 2001)  |
| B0          | Concern, disappointment expressed about the present or future situation; admission, recognition of difficulties.   | A priority must now be to improve our financial results because no business can borrow money to fund losses over anything other than the shortest possible term because ultimately those borrowings have to be serviced and repaid out of trading profits. (West Ham United plc, Chairman's Statement, 2002) |

| <i>Code</i> | <i>Variable</i>   |   |
|-------------|---|---|
| <b>C</b>    | <b>Wages and salaries</b>   |   |
|             | Text units concerned with the organisation's expenditure on wages and salaries, in absolute terms or in relative terms ( <i>eg</i> as a percentage of turnover) or its ability to control its wage expenditure. |   |
|             | <b>Description</b>  | <b>Example</b>  |
| C2          | Satisfaction with present results or expectation of improvements in the future.   | With the long-term prospects for our business encouraging, we believe the money recently invested in contracts for new players and existing squad members represents both a prudent and affordable use of our resources. (Manchester United plc, Chief Executive's Review, 2001). |
| C1          | Factual or passive representation of current situation.   | Such expenses will be pitched at a competitive, as distinct from generous, level and will be funded by means of increased revenues in order to maintain appropriate proportionality between wage costs and turnover. (Celtic plc, Chief Executive's Review, 1999).                |
| C0          | Concern, disappointment expressed about the present or future situation; admission, recognition of difficulties.  | The increasing players' wage bill continues to give cause for concern. (Arsenal Holdings plc, Chairman's Report, 2000)  |

| <i>Code</i> | <i>Variable</i>   |   |
|-------------|---|---|
| <b>D</b>    | <b>Historical logic</b>   |   |
|             | Text units concerned with rationalisation of past performance; comparing actual business performance to previously anticipated performance. |   |
|             | <b>Description</b>  | <b>Example</b>  |
| D2          | The organisation performed better than expected.  | It's testament to how far Derby County has come in such a short time that just over two years ago we were playing in front of 17,500 fans at the old Baseball Ground and now we have a world-class stadium which has been granted international status. (Derby County Limited, Chairman's Report, 1999) |
| D1          | The organisation performed as expected.   | Back in 1992 we undoubtedly set out on a very long road but we continue to progress and I believe we are now some way towards our ultimate goal. (West Ham United plc, Chairman's Statement, 1998)  |
| D0          | The organisation performed less well than expected.   | Inevitably, as with such rapid expansion ['We have come a long way in 5 years'], and the added distraction of the planning inquiry process there have been occasions when we have, perhaps, taken our eye off the ball. (Chelsea Village plc, Chairman's Statement, 1999)                               |

| <i>Code</i> | <i>Variable</i>   |   |
|-------------|---|---|
| <b>E</b>    | <b>Youth development</b>  |   |
|             | Text units focusing on the current (ongoing) youth development issues ( <i>eg</i> players in the first team <i>etc.</i> ); revenue not capital investment issues. |   |
|             | <b>Description</b>  | <b>Example</b>  |
| E2          | Affirmative comment, possibly quantified, about success of youth development, or suggesting expectation of improvements.  | In the last year ten players have participated at various youth international levels and the inclusion of four players in the recent Scotland Under 21 squad was a further measure of our progress. (Kilmarnock FC Limited, Chairman's Statement, 2001) |
| E1          | Factual or passive representation of current situation.   | We continue to place emphasis on our investment in youth players. (Newcastle United plc, Chairman's Statement, 2001)  |
| E0          | Concern expressed about the present or future situation; recognition of uncertainty.  | It is imperative that the Youth Academy system, the lifeblood of our national game, is preserved. (Leicester City plc, Chairman's Report, 2000)   |

| <i>Code</i> | <i>Variable</i>   |  |
|-------------|---|--|
| <b>F</b>    | <b>Future-performance, revenues</b>   |  |
|             | Text units concerned with expectations about the future financial performance of the club; including income generation. |  |
|             | <b>Description</b>  | <b>Example</b>   |
| F2          | Confidence about the future financial performance.  | The Board is committed to ensuring that the significant revenues generated by the business, and in particular the enhanced income from the new TV deal and European campaigns, will be prudently invested to further drive this growth. (Leeds United plc, Chairman's Statement, 2000) |
| F1          | Balanced commentary on financial expectations.  | Success on the pitch is our prime objective but we need to make sure this is achieved in a financially sensible way. (Aberdeen Football Club plc, Chairman's Statement, 1999)  |
| F0          | Concern about the future financial performance.   | The new financial realities of the SPL represent an acute challenge for the current financial year and beyond, but one on which the Board and the Manager are clearly focussed. (Kilmarnock FC Limited, Chairman's Statement, 2002)  |

| <i>Code</i> | <i>Variable</i>  |  |
|-------------|--|--|
| <b>G</b>    | <b>Capital investment – development projects</b>                                     |  |
|             | Text units concerned with investments in Youth Academy, training facilities.         |  |
|             | <b>Description</b>   | <b>Example</b>   |
| G2          | Precise statement of intent; quantification of investment; timescales.               | During the year £10.5m was invested principally on the new Football Centre which was completed for the start of pre-season training in July this year. (Rangers Football Club plc, Financial Director's Review, 2001)  |
| G1          | Intention but with some uncertainty – 'will build'; awaiting planning; consultation. | We are preparing to submit plans to Trafford Council to develop an all weather floodlit pitch and an indoor hall with associated facilities at Carrington which will enable our Academy to be based alongside the professionals. (Manchester United plc, Chairman's Statement, 2000)                                 |
| G0          | Imprecise comments; ambiguous, vague promises; indication of difficulties.           | Completion of the final phase of our Youth Academy development at Netherton has been 'put on hold' until the implications of the discussions between the European Commission and FIFA regarding the principle of transfer fees has been settled. (Everton Football Club Company Limited, Chairman's Statement, 2000) |

| <i>Code</i> | <i>Variable</i>  |   |
|-------------|--|---|
| <b>H</b>    | <b>Player investment</b>   |   |
|             | Text units concerned with player purchases, sales.   |   |
|             | <b>Description</b>   | <b>Example</b>  |
| H2          | Affirmative – strategy for investment as carried out or to be carried out.   | Significantly, attracting talented and high-profile international players is not proving too difficult, helped, no doubt, by the extent of our ambitions and supported by the quality of our organisation and resource. (Liverpool Football Club and Athletic Grounds plc, Business Review, 2000) |
| H1          | Factual or passive representation of players in/out.   | We have added Mark Draper, Uwe Rosier and Patrice Tano over the past two months and, as in the past, will continue to add players in positions where the Manager judges that we need reinforcement, if the budget allows it. (Southampton Leisure Holdings plc, Chairman’s Statement, 2000)       |
| H0          | Concern, disappointment expressed about the present or future situation; admission, recognition of difficulties; sell players; cut squad size. | It is vital, therefore, that the Directors address this situation and steps have been taken to reduce the squad numbers for Season 2002/2003 and this is an area in which major savings may be achieved. (St Johnstone Football Club Limited, Chairman’s Statement, 2002)                         |

| <i>Code</i> | <i>Variable</i>  |  |
|-------------|--|--|
| <b>J</b>    | <b>Capital investment - stadium, other capital projects</b>  |  |
|             | Text units concerned with stadium development, new stadium, other capital investment (not covered in G). |  |
|             | <b>Description</b>   | <b>Example</b>   |
| J2          | Precise statement of intent; quantification of investment; timescales.                                   | We commenced the development of the new Dr Martens Stand, which will contain 10,000 additional seats, 70 boxes (which convert into hotel rooms on non-match days), superstore, museum, public house, educational facilities and top quality hospitality lounges for 1,100 guests. (West Ham United plc, Chairman's Statement, 2001)          |
| J1          | Intention but with some uncertainty – 'will build'; awaiting planning; consultation.                     | The financial implications of constructing a new stadium will be thoroughly scrutinised and evaluated before any commitment to such a project is made. (Liverpool Football Club and Athletic Grounds plc, Business Review, 2002)   |
| J0          | Imprecise comments; ambiguous, vague promises); indication of difficulties.                              | At some stage in the not too distant future it [the Main Stand] will need to be renewed and certain of the other facilities at Pittodrie will also, in the medium term, need substantial sums spent on them to ensure they meet our supporters' and Health and Safety requirements. (Aberdeen Football Club plc, Chairman's Statement, 1999) |

## APPENDIX TWO

### ANNUAL REPORT LENGTH

|                       | 1998  | 1999  | 2000  | 2001  | 2002  |
|-----------------------|-------|-------|-------|-------|-------|
| <b>All clubs</b>      |       |       |       |       |       |
| Mean                  | 27.24 | 29.14 | 30.17 | 31.53 | 33.72 |
| Standard deviation    | 9.86  | 11.02 | 11.12 | 10.85 | 13.13 |
| Maximum               | 44    | 51    | 54    | 58    | 64    |
| Minimum               | 13    | 13    | 15    | 17    | 17    |
| <b>Listed clubs</b>   |       |       |       |       |       |
| Mean                  | 36.17 | 39.50 | 40.33 | 40.25 | 43.92 |
| Standard deviation    | 6.86  | 7.44  | 7.80  | 8.16  | 10.71 |
| Maximum               | 44    | 51    | 54    | 58    | 64    |
| Minimum               | 23    | 24    | 26    | 25    | 27    |
| <b>Unlisted clubs</b> |       |       |       |       |       |
| Mean                  | 20.94 | 21.82 | 23.00 | 25.72 | 24.31 |
| Standard deviation    | 5.98  | 6.10  | 6.51  | 8.27  | 6.32  |
| Maximum               | 34    | 36    | 37    | 43    | 37    |
| Minimum               | 14    | 13    | 15    | 17    | 17    |
| <b>English clubs</b>  |       |       |       |       |       |
| Mean                  | 30.79 | 33.00 | 34.16 | 35.15 | 37.13 |
| Standard deviation    | 8.79  | 10.41 | 10.69 | 10.28 | 12.14 |
| Maximum               | 44    | 51    | 54    | 58    | 64    |
| Minimum               | 16    | 18    | 19    | 19    | 19    |
| <b>Scottish clubs</b> |       |       |       |       |       |
| Mean                  | 20.50 | 21.80 | 22.60 | 24.30 | 27.67 |
| Standard deviation    | 8.41  | 8.35  | 7.66  | 8.31  | 13.29 |
| Maximum               | 41    | 38    | 35    | 38    | 58    |
| Minimum               | 13    | 13    | 15    | 17    | 17    |

Note. Arsenal Holdings plc listed on the OFEX market in October 2001, hence it has been classed as listed for the 2002 time period.

# APPENDIX THREE

## CLUBS

| <b>Legal Name (2001/02 accounts)</b>                 | <b>Football Name</b> |
|--|----------------------|
| <b>FA Premiership Clubs</b>                          |                      |
| Arsenal Holdings plc                                 | Arsenal              |
| Aston Villa plc                                      | Aston Villa          |
| The Barnsley Football Club Limited                   | Barnsley             |
| Blackburn Rovers Football and Athletic plc           | Blackburn Rovers     |
| Burnden Leisure plc                                  | Bolton Wanderers     |
| Chelsea Village plc                                  | Chelsea              |
| Coventry City Football Club (Holdings) Limited       | Coventry City        |
| Crystal Palace FC (2000) Limited                     | Crystal Palace       |
| Derby County Limited                                 | Derby County         |
| The Everton Football Club Company Limited            | Everton              |
| Leeds United plc                                     | Leeds United         |
| Leicester City plc                                   | Leicester City       |
| The Liverpool Football Club and Athletic Grounds plc | Liverpool            |
| Manchester United plc                                | Manchester United    |
| Newcastle United plc                                 | Newcastle United     |

| <b>Legal Name (2001/02 accounts)</b>                 | <b>Football Name</b>    |
|--|-------------------------|
| <b>FA Premiership Clubs</b> <i>(continued)</i>       |                         |
| Sheffield Wednesday plc                              | Sheffield<br>Wednesday  |
| Southampton Leisure Holdings plc                     | Southampton             |
| Tottenham Hotspur plc                                | Tottenham<br>Hotspur    |
| West Ham United plc                                  | West Ham United         |
| The Wimbledon Football Club (Holdings)<br>Limited    | Wimbledon               |
| <b>Scottish Premier League clubs</b>                 |                         |
| Aberdeen Football Club plc                           | Aberdeen                |
| Celtic plc   | Celtic                  |
| The Dundee United Football Company Limited           | Dundee United           |
| Dunfermline Athletic Football Club Limited           | Dunfermline<br>Athletic |
| Heart of Midlothian plc                              | Heart of<br>Midlothian  |
| The Hibernian Football Club Limited                  | Hibernian               |
| The Kilmarnock Football Club Limited                 | Kilmarnock              |
| The Motherwell Football and Athletic Club<br>Limited | Motherwell              |
| The Rangers Football Club plc                        | Rangers                 |
| St. Johnstone Football Club Limited                  | St. Johnstone           |