The Application of the Business System Concept to the Analysis of Football Business

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Since ancient times, sport is considered as one of the necessary elements underlying the harmonious functioning of society. It plays an important part in shaping the political and economic image of the nation and its perceived global competitiveness. For this reason, sports sector is often treated not only as a tool for improving the physical and emotional well-being of the society, but also as a tool in the international area for promoting investment, developing international business linkages and socio-cultural relations between different cultures, as well as enhancing the political role of the nation. The growing economic attractiveness of sports makes it increasingly exposed to the participation of private business structures, which are interested in generating positive cash flows. In this context, the sports sector gradually evolves from being solely a public activity towards becoming a business sector, where the main role is played not by the athletes who strive for sportive goals, but business representatives who aim for an economic benefit.

In the analysis of football business – one of the most commercialized sports nowadays – the systemic approach should be adopted. The relevance of systemic approach relies on the assumption that in the sport business, benefit can only be achieved in close cooperation of various sport business subjects. Their linkages lead to the emergence of a certain business system. If sport is regarded as one of the business sectors, then the application of business system methodology can be fully justified.

Football remains the most popular team-game in the world, which creates huge income flows in the most developed “football countries” and is a prospective business area in the emerging “football countries”. At present, economically strong football systems exist only in the developed countries, first of all - in Western Europe. In the less economically advanced countries, the developers of football face the challenge of football’s economic assessment problem, which appears from not enough developed football business environment. The interest to create strong football business system calls for the search of the ways of popularizing football and boosting the economic potential of its participants.

In the research literature, the analysis of football business is based on the presumption that it is a strong business sector, which is able to generate income and whose participants have the ability to perform at profit. However, such studies tend to ignore the business processes within the sports business. Besides, the systemic approach in football business is usually limited to presenting the structural elements of the system and the superficial analysis of their importance. These aspects can be better addressed by employing the business systems perspective.

In this article we seek to structure football business by using the business system perspective. The outcome of this article is a more or less universal structure of football business system that enables a more thorough conceptual analysis of the football business (and, to some extent, the sport business as a whole).

Keywords: business system, football business, systemic approach.

Introduction

Sport business has been systematically analyzed by Vroooman (1995), Hoehn and Szymanski (1999), Smith (2004), however, most of the researchers in the sport business limit their focus of analysis to fragmented aspects of this business. In most cases, they concentrate upon the economic foundations of sport business (Quirk, Fort, 1992; Ksenne, 1996; Vroooman, 1995; Rapp, 2004; Noll, 2003; Garcia, Rodriguez, 2002), the specifics of labor market (Noll, Zimbalist, 1997; Ksenne, 2000; Gius, Johnson, 2000), the specifics of competition (Zimbalist, 2001; Humphreys, 2002; Fort, Maxcy, 2003) or the relations between the sport business and the mass media (Turner, 1999; Helland, 2004; Baimbridge et al, 1996). It should also be noticed that the sport business is very often analyzed in the context of one sport. For example, American researchers tend to limit their research to baseball, American football or basketball, whereas European researchers mainly focus on football business, which is regarded as the most developed sport business in the world.

The economic aspects of football receive increasingly more attention in the contemporary research literature; however, in most studies of this field a lack of literature of direct relevance to football business can be noticed. Among the publications in football field dominate the topics of athletes training, reasons for sport results researches of sport clubs and individuals athletes, the search of advantages and disadvantages between different football leagues, etc.

Togler (2004) notes that the originator of research in football as a business sector is Sloane (1971), who analyzed the economic aspects of football. Today, football business has become quite a common object in the scientific research. This can be proved by plenty of scientific books about football business (e.g. Dobson and Goddard, 2001; Szymanski and Kuipers, 1999), the
interest of European Commission in this sport (the consultative document of 1999, in which the European model of sports is analyzed on the basis of football business system). However, one could notice a lack of systemic approach, which would cover not the fragmented aspects of football business, but the entire football business in the light of the business system concept.

The aim of the paper is to present the conceptual structure of football business system, which would define the elements of football business and their relations between each other and external environment.


The specifics of football business system

Society regards football first of all as one of its most popular sports, strong clubs, fan-bases and national teams. However, the sport aspect is only one part of the football club structure. Another important part that is often missing in public considerations is that of football as business.

As already mentioned, the idea of football business system remains underexplored. Business system can be briefly defined as a specific business form, which is based on close cooperation of individual organization for joint objectives. Systemic viewpoint to management and economic processes is one of the new management theories, which in most cases are striving for profound viewpoint to processes of management and their administration’s principles (Karpavičius, Ėvilikas, Gatautis, 2008). R. Whitley (1992) describes business system as particular arrangements of hierarchy-market relations which become institutionalized and relatively successful in particular context.

The specific of football business system is reflected by the structure of football micro-environment. Various authors (Porter, 1998; Kotler, 2003; Pranulis et al, 2000; Vijeikis, 2003; Simkin, 1997; Stanton, 1991) emphasize the links of business unit with other business partners through the perspective of micro-environment, which consists of a variety of stakeholders (customers, suppliers, distributors, competitors and groups of interests) who depend on company’s performance in reaching its goals.

In football business, every element of the micro-environment is specific only to football. The specific of football business is first of all reflected by the coherence of football business processes. Most of the elements in football micro-environment are usually treated as elements of sports and only the actors of football business (clubs, associations, federations, etc) emphasize the business aspect. The possible elements of football micro-environment are shown in Table 1.

| Suppliers   | Players / football schools |
| Groups of interests       |
| Competitors   | Other sports / other football clubs |
| Customers     | Spectators, fans / football players |
| Infrastructure | Infrastructure for football match |

 Suppliers in football business are football players who are the main factor that influences the existence of football club or league. The interest of football players to participate in football business and their professional skills influence the success and profitability (the ability to generate income that corresponds to the expenditure) of football club or league. Football schools can also be treated as suppliers, which supply professional football players for various football leagues.

Customers, as a standard element of micro-environment, in the football business turn to fans / spectators, who are the users of product that is made in football business – the specific form of leisure time spending. Football players in football business can also be the customers and it is specifically relevant in amateur football business, where a football player becomes the main source of sponsorship for the football club. In the professional football the role of player as a customer becomes less important, but the player still remains one of the users of the product that is created in the football business system (players must be interested in playing football, so there must be used promotion tools for them).

The role of distributors in football business is played by the football business infrastructure, which can be divided in two main groups:
- The services that guarantee the football match performance (football stadium and its supplements).
- Football business administration activities, which are necessary for the functioning of the entire football business system.

Competitors in football business can be divided into two levels:
- On the level of individual football club, the competitors are other football clubs that participate in the same league. There’s a permanent competition for the spectators in order to increase the income of the club as much as possible. The economic results of this competition are tightly related to the sport results of the club (the proportion of wins and losses in the league).
- On the level of the football league or association, the competition between different forms of sports and even between different ways of spending free time can be noticed.

Every business is related to various groups of stakeholders. Some stakeholders are the corporations that represent the corporate interests (e.g. cartels, associations), others may represent specific public orders. There are also distinctive groups of interests in the football business. First of all, the football associations / federations should be mentioned, which not only organize the sports activities, but also represent the interests of football clubs. Other
interest groups are the external organizations, which usually confront the participation of football business system’s units (e.g. consumerism services). In any case, football clubs must take into account the interests of those stakeholders, because they often have strong authority and influence in the society or business. As Juscius and Snieska (2008) state, meeting the requirements of consumers the interests of other groups and members of the society must be considered, so it is necessary to find out about these interests during the interactions with stakeholders. The tension between business and society is obviously unprofitable for both sides, thus its prevention and elimination are very important strategically.

In the systemic analysis of football business one should distinguish two dimensions of the football business system: (1) horizontal, which is based on joining of football clubs to collaborative structures (associations, leagues) into the joint activities and (2) vertical, which is based on single football business system’s collaboration in the higher level structures in the regional, continental or global context.

Football business existence is mainly based on the horizontal integration – the consolidation of football clubs for the collaborative performance using joint business structures. Football as a sport is based on the competition between clubs to achieve better sport results – Szymanski (1999) states that this is the main reason for spectators’ interests, which generates income for the sport clubs. It means that individual performance of football club may guarantee only minimal income (e.g. from the sales of souvenirs) and for a limited time (e.g. if club does not participate in any competition, its souvenirs will become worthless for the football fans). The football club that wants to earn has first of all to make its name famous. From the marketing point of view, popularity of the football club and its image are the main elements that contribute to the efficiency of the economic activities of the club. In this case, the sport results serve as an instrument for shaping the positive image of the club. Any club that is interested in economic efficiency must participate in various sport events (most often – in football leagues of particular scale). In the development of football business, the matches between football clubs became formalized, strictly controlled by formal structures, which existence is conditioned by the necessity of football clubs cooperation (Howie, 2004). The legal forms of those structures may be of several types, but most often they are the associations of football clubs and are responsible for the administration of football business system, which consists of the founding clubs. The football association guarantees the income generation for its members by organizing football matches.

The above mentioned viewpoint reflects the vertical integration of football business system’s elements. Depending on its size, goals and state in the context of other analogous structures the association may organize leagues of various types, where football clubs are divided by their sportive and economic power. In the analysis of football business system it is important to assess the fact that football, as the form of sportive activity and the form of business system, is structurally heterogeneous and can be divided into various dimensions. Traditionally, football like most other sports, is divided into the dimensions of age, gender, professional skills, and game type (Table 1) that represent not only the level and specifics of football as a sport game, but also the attractiveness and possibility to generate income.

<table>
<thead>
<tr>
<th>Age dimension</th>
<th>Gender dimension</th>
<th>Professional skills dimension</th>
<th>Game type dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kids</td>
<td>Men</td>
<td>Amateurs</td>
<td>Hall</td>
</tr>
<tr>
<td>Juniors</td>
<td>Women</td>
<td>Professionals</td>
<td>Field</td>
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<td>Youth</td>
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<td>Adult</td>
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<td>Senior</td>
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For example, the men’s football generates much more income than women’s football and, for this reason, in most countries men football is much more popular than women football. Of course, this income–popularity relationship is mutually reinforcing.

The analyzed specific of football business system enables us to distinguish the main elements of football business system, which conditions the functionality and development of the entire system.

The structure of football business system

In this part of the article, the conceptual structure of football business system will be provided and the relations among its elements will be discussed. The football business system can be characterized by two main aspects:

- The integration of vertical and horizontal football business actors into one integrated system.
- The relations between the football business system as a single structural element (or single football business system’s elements) and internal environment.

Those two main aspects allow us to distinguish the role of football business system and its actors in the business environment and make linkages with other actors, which contribute to the emergence and development of football business system.

Two different approaches to business system lead to an assumption that football business system can be treated as:

- an integrated whole of subjects of all levels, where the central figure is football club;
- an undividable entirety, which contacts with environment elements and the results of this contact impacts the structural elements of system.

Our model of football business system relies on the second approach, where most attention is paid to the relations between the business system and its external environment.

However, the first approach is also taken into consideration in order to determine the relationships between the football club and football association. In this case, the football association is treated as mother cooperative structure of football clubs, which is responsible for the existence of entire football business medium (football clubs and their representative cooperative organization’s business interests). It is graphically represented in Figure 2.
In the presented figure the dual football clubs relations with football association are presented. Firstly, the football association is established as an agreement of various football clubs and is the ruling body for football business system.

Figure 2. The structure of football business medium

Therefore, the clubs are in a way subordinated to the association. But, according to Bougheas and Downward (2003), the establishment of football association is based on the cooperative interest of the football clubs, so the links between the clubs and the association can be described not only as hierarchy, but also as cooperative partnership. These cooperative links are implemented by organizing the football league, which is the basis for producing the ultimate product in the football business system. Football league is organized by the efforts of association, which implies that there are certain subordination links between the association and league.

The presented structure of the football business medium is regarded as the background for football business system. Other elements of football business system are deployed around the football business medium by their particular business relations. In the presented model of football business system all its elements are interrelated by the dual links of the financial flows, which are described as income and expenditure links.


The modern football business income structure is conceptualized by Andreff (2000). According to Andreff (2000), the modern structure of football business income sources consists of five elements: (1) press, (2) globalization, (3) trade, (4) corporations and (5) capital. Such structure of income flows is not thorough enough because it doesn’t cover all possible income sources of football business participants. This statement is illustrated by Grundy (2004) who carried out the research on strategy and financial management in the football industry. While analyzing the football club financing sources, the author emphasizes the trade of football players as one of the most important income sources for the football club. Football players are regarded as an asset or investment of the football clubs, which determines the variable financial value of the club that depends on the changing level of players’ professional skills.

Andreff (2000) approach to football business income sources is criticized for the fact that the author ignores the significance of income generated by the football game spectators. He considers this source of income to be the relict of the past. Such view is criticized in the research of Brown et al. (2004) and Grundy (2004), who emphasize the importance of stadium infrastructure to the business success of the sports clubs. Brown et al (2004) have made a comprehensive analysis of the investment by the professional American football clubs into the stadium infrastructure. Their analysis leads to a conclusion that numerous possibilities exist to boost the income from ticket sales by expanding the number of VIP lodges in the stadium and by offering additional services (food, extra shows before / after the match or during the breaks), enhancing the comfort of seats in the stadium, etc. In this way, income from the ticket sales may become only one of the sources of income.

Another criticism of the income sources presented by Andreff (2000) is the underestimation of the role played by the public sector and its organizations. Andreff (2000) presents corporations that sponsor football clubs or leagues as the core football business income sources, but he ignores the case when the football clubs or leagues are supported by the public sector. This aspect of financing is thoroughly analyzed by Michie and Shraddha (2007) and Long (2005) who emphasize the fact that quite often football clubs tend to disregard the importance of material benefits offered by the local government institutions (e.g. the privilege to use public infrastructure – stadiums, etc.).

The analysis of scientific publications allows distinguishing such sources of football business income:

• **Media** that usually generates the largest share of sport income via TV or radio emissions.
• **Globalization**, that enables the emergence of international football business structures capable of guaranteeing a greater income for the football business.
• **Trade**, which covers the market of the consumer products / souvenirs of the football club or association, as well as the additional income from stadium infrastructure.
• **Corporations**, which are treated as the main sponsors of football clubs or leagues in football business.
• **Capital**, which is linked with the involvement of football club in a stock market.
• **Spectators**, who create the specific income source – income from ticket sales.
• **Players**, who can be regarded as a valuable asset or human resource of the football club.

All of the above mentioned income flows are oriented towards either football club or football association, or both directions. Depending on the proportion of the club and association income flows, the income flows forms in football club medium: the football club pays contribution to the association and the association diverts the income into two mains flows: one for performing its own functions and the other to support clubs by using a specific mechanism. Graphically, the income flows of football business system are presented in Figure 3.

The structure of football business income is one of the factors that characterize the football business system and its links with the external environment. Another factor of equal significance is the expenditure of football business...
system. Its structure shows the relations between the football business system and those environment elements, which do not generate positive financial flows, but require certain expenditure.

The structure of football business expenditure can be drafted in accordance with the structure of microenvironment elements of football business, which is presented in Figure 1.

Such decision is based on the fact that football business microenvironment (except the element of customers), which was formed on the basis of business microenvironment elements, presented by Kotler (2003), Pranulis et al (2000), Vijeikis (2003), Simkin (1997) and Stanton (1991) covers only several environment elements:

- Those that create the business subject’s expenditure for commercial performance support (relations with suppliers and infrastructure subjects)
- Business subject’s interests defense (relations with competitors and groups of interests).

In this way, the football business microenvironment elements, responsible for the expenditure sources of the football business system, can be divided in such groups:

- **Suppliers.** These are the football schools that prepare the future football players, or improve the skills of current football players, and contribute both to the sportive and economic success of the club.
  
  Two separate groups of relations with suppliers should be distinguished: (1) relations between football association and football schools and (2) relations between the professional players and football clubs.

- **Infrastructure.** It is the infrastructure of material valuables that is necessary for the successful football business performance and administration of football business system.

- **Competitors.** This form of expenditure can be described in two ways. First, it is other sport business systems that compete with football business system. In this competition certain expenditure is necessary to promote the popularity of football among the fans of other sports. Another aspect of competition-related expenditure is the support for national teams, which is oriented to improving the performance of the national team in international arena.

- **Groups of interests.** Football business objects always contact with various public groups, organizations and the public sector. Those relations can be distinguished into two types: (1) economic relations with the public sector and (2) relations with various public groups that can be regarded as the public relations of football business system.

In both – football business income structure and football business expenditure structure – some elements are related with the individual football club (e.g. investment to stadiums, players, taxes, etc.), while some elements are related to the association itself (e.g. the promotion of football sport, the future players’ training strategy formation, etc.). The structure of expenditure flows in the football business system is graphically presented in Figure 4.

Figure 3. Income flows of football business system

The analyzed income and expenditure structures of football business cover all the elements of football business system external environment, which have an impact on the performance of football business system. Based on the structures of those two environment groups, the relations in internal football business system’s environment (i.e. football business medium) are formed with two main elements – football association and football clubs. The football business income analysis has showed that, in the first stage, football business income is allocated between the association and the club, while in further stages the internal reallocation of income is taking place.

The income obtained by the association is allocated to the clubs on the basis of agreed principles. Those principles, as Forrest (2002) and Kesenne (2000) note, usually depend on the relations between the activities coordinated by the football association.
In the analysis of football business system four dimensions of football business system were determined: age, gender, professional skills and game type. The role of those dimensions in particular football association determines the allocation of income across the football clubs. For this reason, the football structural dimensions become the main factor for income allocation across the clubs in the proposed model.

It can be seen in Figure 5, where the scheme of football business system income and expenditure allocation is presented. In this scheme, the relations between the external and internal environments of football business system are described by using the intermediate elements: income allocation mechanism and expenditure allocation mechanism.

The mechanism for allocating income between the association and the clubs determines the share of total income that belongs directly to the association and the share of income that is owned by the club. In different football business systems, these two shares may strongly differ depending on various factors.

In the economically most developed business systems, a major part of income belongs to the association, which is delegated to represent the football clubs in negotiations with TV companies and is responsible for the search of the main sponsors. The traditional individual income flows of a football club, unrelated to the income sources of association, are income from the ticket sales and additional services in the stadiums.

Figure 4. The expenditure flows of football business system

Figure 5. The scheme for income and expenditure allocation in football business system
The mechanism of expenditure allocation as intermediate element of football business medium’s relations with external environment defines the football business system’s interest to minimize total expenditure and to most efficiently allocate it between clubs.

Gius and Johnson (2000), Kesenne (2000) and Noll and Zimbalist (1997) note that the rationale behind the expenditure allocation mechanism is based on the need to more or less equalize the financial potential of the clubs that belong to the association. Such actions also bring more equality to the sportive potential of the clubs, which, in return, increases the competitiveness of the entire football business system.

In the light of this analysis one should also consider the differences between the American and European sports business systems. The differences of those two types of business systems are reflected by the different approaches towards allocating the system’s income and expenditure flows. In the European football business system, the club may be connected with several different level subjects that organize football business: regional and national associations, continental and global unions of associations, etc. The relations between the football club and those organizations are based on the cooperative interests in order to increase the income of football club through the participation in various football events on different levels and in different geographical markets.

Thus, the European business medium covers several independent mechanisms of income allocation, which in simplified terms can be referred to as football leagues run by different associations. In such a complex football business system every element of football business medium has specific income and expenditure flows, but all those elements are inter-related. For this reason the allocation of income is taking place not only among associations and clubs, but also among associations.

The allocation mechanism of European football business system expenditure may be characterized in the same way. According to Hoehn and Szymanski (1999), every structural element in the medium of European football model has its own expenditure; its structure depends on their position in football business administration system. The allocation of expenditure is based on the cooperative dependence between associations and clubs. Reynolds (1999) claims that such way of allocation makes football clubs interested in making the cooperative links with the association.

A different type of income and expenditure allocation mechanism can be noticed in the American football business model, which is characterized by the concentration of football business performances in one master organization. In such football business model the largest share of income and expenditure is controlled by the association, which, according to Hoehn and Szymanski (1999), can be regarded as an autocratic actor in football business organization. It has tight and unilateral control over the football clubs. The main feature of American football business system is the exclusive membership of an individual football club to one association, which has power to regulate almost all club’s income and expenditure flows.

Taking into account the differences between income and expenditure allocation structures of European and American football business systems, it is important to form the conceptually universal income and expenditure allocation structure of football business system, which guarantees the more detailed analysis of football business system. Such universal income and expenditure allocation structure of football business system is presented in Figure 6.
The income and expenditure allocation structure, presented in this article, takes into account the specifics of American and European football business systems:

- The income recipients and expenditure centers in football business system are not specified, because the presumption is made that income and expenditure structures may be formed on the basis of different principles in different types of football business systems.
- Different levels football associations and / or leagues are emphasized because different football business systems may have a different number and structures of those elements.
- In football business medium football clubs are treated as partially dependent on association through the cooperative and subordinate links.
- The additional element of football structural dimensions is included in the internal football business income allocation – intermediate managerial organizations, which are typical for nearly all European football business systems.

The presented assumptions and results of analysis of the income and expenditure structures of football business system enables to characterize the common football business system’s structure, which can be divided in three main elements:

- **Football business medium**, which covers the characteristics of American and European football business and outlines the relations between football clubs and the central organization of football business system, which is treated as a football association.

- **Football business income sources structure**, where available income sources and related income generating activities are distinguished. The structure of income sources is related with football business medium through income allocation mechanism, which characterizes the primary allocation of football business income among the members of football business medium.

- The structure of football business expenditure, which covers all available directions of football business expenditures and related expenses generating activities. The structure of expenditure is related to football business medium through the expenditure allocation mechanism, which characterizes the final allocation of football business expenditure among the members of football business medium.

The above mentioned three main parts of football business system cover all elements of football business and its environment. For this reason it can be stated that the conceptualized football business system covers all football business activities, which are related to the commercial interests of football organizations.

**Conclusions**

1. The formation of football business system is based on the theoretical aspects of business system and the specifics of sport business. This allows stating that the analysis of football business system presented in this article conjoins two areas of theoretical researches: business system and sport business. Herein lies the need to combine different viewpoints into entire theoretical structure, which would be able to highlight the main characteristics of football business.

2. The analysis of the specifics of football business system in the context of sport business system allows to conclude that football as a business sector can be described by the following characteristics: (1) close relation to various elements of the external environment; (2) the specifics of competitive environment; (3) income centralization and internal allocation; (4) different regional / cultural principles of business organization.

3. The structure of a football business system, which is based on the above-mentioned characteristics, can be classified into three separate groups of processes of football business: (1) football business medium; (2) football business income structure; (3) football business expenditure structure. Such structuring of football business system allows distinguishing the inter-relationships between the individual elements of football business system and their relations with the external environment. This, in its turn, enables us to conclude that the presented conceptual structure of football business system properly reflects the processes of football business, their inter-relationships and interactions with the elements of external environment.

4. The football business expenditure and income structures can be treated as basement for football business system’s financial flow structuring. This area of football business system enables to characterize the commercial links between participators of football business medium and business units in external environment.

**References**


Verslo sistemos koncepcijos taikymas futbolu verslo struktūrizuoti

Santrauka
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