FOOTBALL CLUBS FINANCIAL STATEMENT ANALYSIS UNDER FINANCIAL FAIR PLAY: BIST CASE

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Abstract

Football has become a sector that spread more than a sporting activity today, and as the development in this sector grows, more significant amounts have begun to be pronounced, which has revealed the necessity of offering financial data to the public in a transparent manner. As the football sector expand, fans have become more interested in the financial conditions of their teams as well as their sporting achievements. In particular, the team expects sporty success and also expects the club to use their financial resources efficiently. The emergence of football in this study, the current location, the development of football in Turkey, three big football teams in the history of Turkey, financial fair play and responsibility brought to the club examined. Accordingly, the vertical analysis of financial statements of the three major football clubs in Turkey and has been reviewed three fiscal periods (2015-2016) through comparative analysis table types.

Keywords: BIST, Football Clubs, Financial Fair Play, Financial Analysis

1.Introduction

For many years, despite penalties and prohibitions, and being irregular and without standards, football, has still managed to attract the masses. The foundation of today's modern football was laid in England where it was mostly banned. Football, which has the same great interest among both common people and nobility, has progressed greatly and undergone significant progress while spreading rapidly in England.

All schools in England played football with their own rules. In competitions between schools, this disorganized image caused some disagreements. In order to eliminate this uncertainty, the rules were first published in 1815 in front of Eton College. The concepts such as penalty, goal and referee were applied for the first time in Eton college matches (Keleş, 2014)

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In 1848, all football rules were combined under the name of Cambridge Rules, which aimed to ensure the same standard of football in England and the first football match according to these rules was played in Cambridge. In 1857, the UK’s first football club, Sheffield Club, was established. As a result of the great interest that football awakened in England, 11 club representatives gathered in London, at the Lincoln Inn in Great Queen Street and the first federation of the football world, the Football Association of England (FA) was established (26 October 1863). This date is accepted as the birth date of modern football. While these developments are important in terms of the institutionalization of football, international football organizations with an important role in the institutionalization and expansion of football in the world have emerged. The first president of FIFA was the French football player Rober Guerin (Güven, 2010).

Britain wanted to organize a world tournament with the participation of all countries but failed to participate in FIFA's first establishment, and joined FIFA in 1906 as a result of great efforts by Baron Edouard de Laveleye. Turkey participated in FIFA 1923 (http://www.fifa.com/about-fifa).

FIFA, the organization directing world football, has 209 members. Although founded in Paris, it is located in Zurich, Switzerland. The European Football Federation (UEFA), Asian Football Confederation (AFC), African Football Confederation (CAF), North Central American and Caribbean Football Confederation (CONCACAF), South American Football Confederation (CONMEBOL), and Oceania Football Confederation (OFC) are all allied to FIFA (http://www.fifa.com/associations/index.html).

The introduction of modern football into Turkish society coincides with the late 19th century. Football was played for the first time on Ottoman territory by non-Muslims and foreign nationals settled in the country. In 1897, mixed groups from the city of Izmir confronted a mixed group from Istanbul and the first football match in Turkish territory was recorded as history.

The first Turkish football team was 'Black Stocking', which was founded by Fuad Hüsnü Bey and Reşat Danyal Bey with the English name. This team played the Greeks in 1901 and this match was recorded as the first football match of a Turkish team. Kadikoy Football Club, which was founded jointly by the British and Greek, was the first club in Istanbul in this sense. However, as a result of disputes, the British formed Moda Football Club, then the Greeks, Elpis and Imogene, formed clubs followed the British. Following this, the Istanbul Football League
was established in 1903 with the participation of the same teams. The establishment of a football league in Istanbul was the first sign that football would become more widespread in this region. In 1905, Mekteb-i Sultanı’s 10th grade students founded Galatasaray under the leadership of their friend Ali Sami Yen. Galatasaray joined the Istanbul League in 1905-1906 season and won the first championship in 1907-1908 and heralded a completely new beginning for Turkish football history. Then Fenerbahçe and Besiktas followed them and Turkish football started to move towards a new dimension. The period when football in Turkey began to fully flourish was between the years 1908-1923.

New teams were formed in the air of peace after the Second Constitutional Monarchy, while Turkish teams also confirmed their grasp. After Istanbul, football began to spread in İzmir, Ankara, Eskisehir, Bursa, Adana and Trabzon. Sunday League, Friday League, Istanbul Turkish Exercise League and Istanbul Championship League were important organizations in this period. With the subsequent wars, football was interrupted for about 11 years. Following the establishment of the Turkish Association of Sportsmen, the first Turkish Football Federation was founded in 1923 in the hall of Letafet Apartment Hall in Şehzadebaşı under the presidency of the ‘Football Delegation’ (http://www.tff.org/default.aspx?pageID=293).

Especially in the 1980s in Europe, football underwent a great change both in terms of economy and rule. The advertising and sponsorship revenues of clubs started with the adoption of new statutes and the income from private TVs and football changed it from a normal sport to a branch of industry. On the other hand, the purchase of tickets to watch the match and the purchase of official products from the football club also turned football into a more economic branch. Therefore, football clubs must also adjust their income and expenses accordingly, have a certain profit maximization, regulate financial statements as required by modern enterprises, and resort to financial and economic practices.

Football clubs in the world are generally managed by businessmen, while the boards of directors consist of businessmen who are successful in the sector. The fact that the leading executives started to manage their football clubs as companies brought a new perspective to the football sector and this sector became financially more dynamic.

Thanks to trade, modern football has spread around the whole world from England. The development of football took place in a very slow process, the game revealed its own rules and was re-structured for each side in terms of what was missing during the time it was played. The increasing popularity of football in mass media, especially in the early 90s, made football more
attractive. Together with the successive national and international sporting successes, this led to the economic development of football in the world and its increased income as a sector.

This new sector was not only based on clubs, but also included countries. On the basis of clubs, organizations such as the UEFA Champions League and UEFA Europa League developed while the emergence of organizations such as European Football Championship and World Cup, led countries to make their own promotions and increase their income in the tourism sector.

After the 1990s, World Cup revenues increased exponentially with increasing media influence. Revenue of 1,300 Million Euros in 2006 became 2,448 Million Euro in 2010. FIFA sold a portion of the 2014 World Cup broadcast revenue in 2010 at a price of 2,050 Million Euro (http://www.radikal.com.tr/ekonomi/).

In Turkey, the football industry is created by football clubs, players, coaches, technical committee, sporting goods companies, sponsors and other connected sectors. First place is the players. According to FIFA's data, Turkey has the highest number of players in over 20 countries. As of 2002, there were 1 million 675 thousand 865 football players in the green fields with 1175 of them in the first league.

According to the statistics of the General Directorate of Youth and Sports, in Turkey, there 1150 football pitches and 45 stadiums. The number of clubs in the amateur league reaches 5192. According to active Football Referees and Observers Association data, the number of football referees in Turkey is 283, while the number of observers is 135.

Football clubs, whose revenues and expenses are increasing day by day within a sector expressed in millions of dollars, are maintained by an association structure and have difficulty in managing their budgets. Football clubs are one of the most important players in industrialized football and in accordance with the dynamics of the economy they exist in, the transformation from the structure of an association to the structure of a company is observed (Özbay, 2016).

In the third paragraph of Article 24 of Law no. 3289 on the Organization and Duties of the General Directorate of Youth and Sports, it is stated that sports clubs may establish their professional teams within the framework of the Turkish Commercial Code or transfer them to an incorporated corporation. It is also stated that clubs can rent professional football teams to these joint-stock companies.
According to Turkish Commercial Law, the joint-stock company, in its most comprehensive form, has a title and a legal entity, operating on economic objectives and issues not legally prohibited, whose basic capital is specific, divided into shares of capital and represented by shares, which are solely responsible for its assets. In case the assets are not sufficient to cover their debts, they have capital partners, which are also responsible for their public debts and they are limited to the capital they commit.

In paragraph 5 of Turkish Football Federation Statute Article 75, it is clearly stated that clubs can delegate their football branch to a joint stock company. In the 4th section of the Football Clubs Registration Instruction, the process for corporation of clubs is defined. According to the instructions "clubs, as a whole, along with their football branch of the assets and liabilities, established in accordance with the Turkish Commercial Law provisions or the joint-stock company will be established but may transfer the TFF decision of the Board of Directors."

Competition is one of the most important dynamics of the industry. In this sense, corporatization of football clubs is the most important milestone of industrial football. In the second paragraph of Article 14 of the relevant regulation, clubs are not allowed to transfer their right to competition to other clubs in such a way as to prevent sporting competition; they may not merge with another club; however, it was stated that they could become corporations or associations in such a way that would not obstruct sporting competition. An association set up as a branch of the football association was defined or set to be transferred to a company is required to inform the Turkish Football Federation of (Özbay, 2016):

- The general assembly decision regarding the transfer of the football branch to a company with all its assets and liabilities, the responsibility of the association's branches for 2 years and the authorization of the board of directors regarding the transfer of the contract with the company.

- Club's final balance sheet

- Transfer agreement signed between the association and the company

- Documentation required by the Turkish Football Federation

A company taking over the football branch of the association has the obligation to submit the following documents to the Turkish Football Federation;
• Company's articles of association, including the right and authority to engage in any activity related to football

• Trade Registry Gazette with company registration information

• Notarized copy of company share information

• Company signature circular

• Chamber of Commerce registration example

• Turkish Football Federation will be addressed in the companies undertaking

• The decision of the General Assembly regarding the acquisition of the football branch of the association with all assets and liabilities and the authorization of the board of directors within the scope of the transfer agreement with the association and the Trade Registry Gazette where the decision is published.

• Documentation required by the Turkish Football Federation

With the approval of the submitted documents and Turkish Football Federation, corporatization takes place. Corporatization brings some important principles. Within the scope of the ownership of clubs; natural and legal persons cannot manage, cannot be a shareholder or a member of the board of directors of more than one club in the same league. No natural or legal person may control or control more than one club in a manner that would impair the integrity of any event or tournament.

2. Financial Fair Play

Financial Fair Play (FFP) can be defined as improving the overall financial situation of European club football. The club’s manageable debt for long-term development (stadium, academy, infrastructure, etc.) is effective for financial planning and standard practice in most sectors. Including the future revenue to be turned into a source of income such as day-to-day operating activity or short-term cash flow deficits, debt can create problems and this debt must be managed effectively.

Financial Fair-Play was first accepted in 2010. Soccer clubs that are eligible to participate in UEFA tournaments have to prove that they do not have any debts to other clubs, football players or tax authorities. This practice started in 2011. Since 2013 the Financial Control Board was set up and is working independently to balance their financial revenues head
to head. The Board checks whether the clubs that participate in UEFA tournaments have financial debts and apply the necessary sanctions to clubs that do not meet the requirements. The last three years' financial reports of the clubs that will participate in UEFA tournaments are analyzed and evaluated.

UEFA is in constant dialogue with the European Commission on Financial Fair-Play and is receiving ongoing support for this initiative. The UEFA President and members of the European Commission have a joint statement on competition, emphasizing the consistency of the objectives and rules of Financial Fair and the policy of the European Commission is aimed at state aid. As of June 2015, arrangements were made by UEFA to consider the restructuring of clubs, which were faced with economic difficulties, as well as to control club expenses.

The basic requirement of FFP is that the income and expenses of clubs must be equal. The calculation of the equivalent calculation as required by the FFP is made by deducting the relevant expenses from the related income for the financial year. It is necessary to ensure that the results of the equivalent calculation to be calculated in this way are positive. So, the club's expenses will not be more than their income. The relevant income included in the calculation of the equivalent account requirement is equal to the sum of the following items:

- a) Box office revenues
- b) Sponsorship and advertising revenues
- c) Publication rights income
- d) Operating income
- e) Other operating income
- f) Income from player sales
- g) Income from disposal of tangible assets
- h) Financial income

The related expenses are the sum of the following items.

- a) Sales / material costs
b) Personnel expenses

c) Other operating expenses

While there is a perception that clubs will not be allowed to be harmed by this system, clubs can spend as much as 5 million euros they earn in the evaluation period (3 years). However, if the club owner or any other person is directly compensated by a contribution/payment, this level may be exceeded by a certain limit. This prevents the formation of unsustainable debt.

-45 million euros for the evaluation periods -2013/14 and 2014/15

-30 million euros for the evaluation periods -2015/16, 2016/17 and 2017/18

To promote investments in stadiums, training facilities, youth development programs and women's football, the costs associated with them are not included in the overhead calculation. If a club does not comply with the regulations, UEFA's Club Financial Control Body (CFCB) will decide on the measures and sanctions related to this club. Failure to comply with regulations does not mean that a club will be automatically excluded, but there will be no exceptions. Depending on various factors (e.g., the tendency of head to head), the club may be given disciplinary penalties. There are sanctions for penalties and measures:

a) Notice

b) Censure

c) Fines

d) Reduction of points

e) Retention of proceeds from UEFA competitions

f) Prohibition of registration of new players in UEFA competitions

g) Limiting the number of players to be registered in UEFA competitions, including financial restrictions on the total cost of social rights expenses of players registered as club A-list for UEFA club competitions.

h) Disqualification of the club from ongoing competitions or failure to take part in future competitions
i) The championship (title) of the club or the withdrawal of the prize.

According to Financial Fair Play practice, if the club owner transfers funds to his club with a sponsorship agreement with a company, the authorized unit of UEFA reviews and, if deemed necessary, checks if the results of the sponsorship proceeds meet the fair value level according to market prices. Under the revised regulation, assets are considered alone or together with other assets linked to the same management, if they reflect more than 30 percent of the club's total income (http://www.bloomberght.com/haberler/haber/1848901-17)

Some of the clubs still owe money and they still do not pay their debts; the Club Financial Control Body examines whether the club complies with the Financial Fair Play application. A certain level of debt for clubs is part of the normal financing approach. However, increasing net debt is constrained by head-on rules, which should make club owners or investors restructure capital and cover losses. In addition, investors who want to sign a voluntary agreement with the Club Financial Control Body are expected to pay the previously promised money source.

Since the UEFA club licensing system was implemented in the 2003/04 season, 53 clubs that were eligible to participate in the UEFA Champions League or the UEFA Europa League in 57 separate events could not participate in these competitions as they did not meet the licensing criteria or the Financial Fair-Play criteria. Financial Fair-Play was added to the licensing criteria in 2011. Since that time, 6 clubs have not been able to participate in UEFA competitions because they did not pay their players or pay the transfer fee to other clubs. Accordingly, clubs cannot be prevented from participating in UEFA competitions if the Financial Fair Play criteria are not applied.

3. Financial Analyses of Football clubs indexed in BIST

In the following, the 2015 and 2016 financial statements of Beşiktaş, Galatasaray and Fenerbahçe sports clubs in Borsa İstanbul were analyzed, respectively.

Besiktas Gymnastics Club Financial Table Analysis

When the financial statements of Besiktas club are analyzed in 2016, there was an increase of 73.22% in current assets compared to the previous year. The reason for this increase was due to the increases in the Trade Receivables item of the balance sheet. Trade receivables have a significant place in the assets of Besiktas Gymnastics Club in both periods. This situation shows that Besiktas Gymnastics Club has problems in collecting receivables and these
problems may cause problems in cash cycle. On the other hand, the current assets of the enterprise are well below the short-term debt figures in both periods. This situation can be interpreted that the current assets do not play an active role in the activities of the club and the shortage of current assets adversely affects the structure of the asset.

On the other hand, while Besiktas 2016 figure of current ratio of 0.16, the average of the sector for Turkish football clubs is 0.24. This shows that the market average is about 33.33% behind in percentage terms.

While fixed assets of Beşiktaş club accounted for 37% of balance sheet assets in 2015, this ratio decreased to 24% in 2016. The majority of the fixed assets include sportsman licenses.

The ratio of Besiktas short-term liabilities to liabilities was 2.30 in 2016 and is considered to be quite high according to the market average (0.96). This situation shows that the company can borrow easily in the market and bargaining power is high.

Besiktas's equity figures in both periods are negative. This situation is insufficient in the equity structure of the enterprise and capital increase is deemed necessary.

**Galatasaray Sports Club Financial Table Analysis**

When the financial statements of Galatasaray Sports Club are analyzed, it is observed that the percentages of current assets in assets are quite low. This situation shows that Galatasaray Sports Club's cash needs are high and that the necessary resources will be provided from foreign sources. This proves that Galatasaray Sports Club is dependent on outside financial sources.

Galatasaray Club in 2016. The current ratio was 0.35, and the ability to meet its short-term liabilities with current assets is higher than the average in sports clubs. In addition, this situation also shows that the company borrowed in accordance with the cash values.

The share of financial assets in total assets shows the importance that Galatasaray Sports Club gives to investments such as affiliated value and participation. The fact that this ratio is increasing over time may indicate that the business is moving more out of the business and that its partners may be using the existing business to provide resources to other businesses.

The ratio of the club's short-term debt to total liabilities in 2016 shows that the club was forced to borrow from abroad while the amount of bargaining power was quite low, and its debts could not be extended to the long-term.
As in Besiktas, the capital structure of Galatasaray Sports Club is not strong and it is necessary to increase capital for strengthening.

**Fenerbahçe Sports Club Financial Table Analysis**

While the current assets of Fenerbahçe Sports Club accounted for 52% of total assets in 2015, this ratio increased to 61% in 2016. Trade receivables from related parties take the largest share in current assets. Nevertheless, the current rate is 0.20 in 2016, which is below the sector average. It shows that the short-term debts of Fenerbahçe are quite high and they cannot meet their short-term debts.

The fact that Fenerbahçe Sports Club has a high share of short-term debts in total liabilities in both periods shows that its debts cannot spread over long term. Furthermore, the fact that the ratio of Fenerbahçe's short-term commercial debt to liabilities is higher than the sector shows that the company can borrow more easily from the market and the bargaining power is high.

The fact that the share of the shareholders' equity in total liabilities is low compared to the sector in both periods shows that the capital strength of the company may be low. The capital structure of Fenerbahçe is not strong; the capital needs to be increased.

**4. Conclusion**

When the financial statements of 3 major football clubs are analyzed, it was seen that there are big problems in the financial structures of clubs. In particular, the lack of equity in the three clubs gives rise to many problems in the future. On the other hand, according to Financial Fair Play, clubs cannot obtain a UEFA license if the club fails to pass the Financial Fair Play test if it has been unable to meet the equity deficit in the following years. Consequently, the three major teams have been provided unfair competition advantage over their assets and revenues.

The financial portrait of the 3 big clubs determines the overall appearance of Turkish football. It is unfortunately not possible to have sustainable sporting performance with these financial structures.

Clubs should take various measures and take structural steps to ensure qualitative transformation and seek a long-term solution. At the beginning, the first is to increase monetary income by diversifying. The financial structure of all clubs is insufficient to prevent economic
risks in the long term, and a structure should be established to create income independent of sporting performance as in Europe.

In the 3 big clubs, there is no management approach based on infrastructure and cost method. Today, the main factor in the borrowing of clubs is the inefficient use of resources as well as the inadequacy of revenues to cover expenses. The main reason for this is the high salary and transfer fees, and according to the Financial Fair Play criteria, player salary and transfer fees should not exceed income. As a solution, it can be suggested that clubs attach more importance to their youth squad.

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