

Cruijff's 'velvet revolution': The potentials and risks of board executives with a football background in Dutch football

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This paper examines the influence of board executives with a background in football on both the sportive and financial performance of the football club. In order, we used data from all 34 Dutch professional football clubs to explain their performance by firm- and executive characteristics. Generally, we find strong evidence that football clubs can buy success by their payroll mechanism. However, we find no evidence that executives with a football background effectively influence the football club's sportive performance. Moreover, we expected these football backgrounded executives to subsequently worsen the financial performance of the football club. Based on the idea that there exists a trade-off between sportive and financial performance. Although, we find weak evidence of a trade-off between sportive and financial performance, we find no evidence that executives with a background in football amplify this trade-off effect, and therefore would worsen the financial performance of the football club.

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1. Introduction

In September 2010 Dutch football legend Johan Crujff, as a concerned share- and stakeholder, started a 'velvet revolution' at his former club, Ajax Amsterdam. In his opinion, Dutch football sportive performance, including Ajax, worsened over the last years.¹ Therefore, an significant alteration in Dutch football was needed. Using his influence as a former legend of the club, Johan Crujff intervened into the deepest core of the organisation and replaced the complete (non-football backgrounded) executive board and management of the club. He argued "that a football club should be managed by executives with a (past) functional football background, and preferable a history as a professional football player, to improve sportive performance".² Hence, the football background of the board executives would require the necessary 'football' expertise to manage the primary goal (Sloane 1971, Késenne 1996) of a professional football club, sportive performance.

We assume that the better talented players earn higher wages and that football clubs, consequently, buy success by effectively investing in these wages (Szymanski and Smith, 1997). Furthermore, we expect that these 'football' backgrounded board executives are, because of their expertise, skills and knowledge, capable to use their budgets more effectively than their rivalry executives without a background in football. Hence, they improve sportive performance by attracting better talented players or improving the youth academy to even educate and develop these talented players themselves. Therefore, the main research question of this paper states, that board executives with a background in professional football positively influence the sportive performance of the football club.

Interestingly, alongside the sportive crisis, over the years Dutch football also felt into a financial crisis. This is illustrated by the 34 Dutch professional football clubs over the season 2013/'14, where they recorded a total operating financial loss of 38,5 million euros.³ Furthermore, only 8 out of the 34 Dutch football clubs achieved operating profits. Basically, we observe cumulative losses in almost all European's major leagues, including the Belgium Pro league, English Premier League, French Ligue 1, German Bundesliga and Spanish Primera Division. Some of these leagues probably solace themselves with the sportive results. However, is this tenable on the long term? Based on this observation, we assume that the aim for sportive success worsens the financial position of the football clubs. This negative effect could only be strengthened by adding executives with a sportive background on the board, because these executives will probably mainly focus on the sportive performance of the club.

¹ <http://sport.infonu.nl/voetbal/129266-daalt-nederland-nog-verder-op-de-uefa-coefficientenlijst.html>

² <http://www.nu.nl/sport/2379073/crujff-wil-oud-spelers-in-ledenraad-ajax.html>

³ <http://www.hetseizoenincijfers.nl/index.php?p=algemeen&s=bedrijfsresultaat&b=ej>

Generally, we assume that better talented players earn higher wages. Therefore, to attract and keep their talented players, we assume that football clubs should raise their wage costs. As a result, football clubs that aim for sportive performance do this at the cost of financial performance. This is confirmed by the trade-off theory (Garcia-del Barrio and Szymanski, 2009), that denotes that sportive and financial performance of the football club are negatively related. Moreover, football clubs face 'weak' governance mechanisms (Andreff, 2007) to prevent financial failure. In fact, football clubs fully rely on the separation between the executives and supervisory board. Hence, we observe no additional governance mechanisms guarding for financial risks. Basically, we observe that most of these supervisory board share the interest for sportive performance at the costs of financial performance, and therefore, these governance mechanisms do not withhold the football clubs from financial failure. As a result, we expect that executives with a background in football, who mainly focus on sportive performance, will worsen the football club's financial performance.

In addition to our main research question, we will examine the influence of board executives with a football background on the financial performance of the football club.

2. Theoretical Background

This section briefly discusses the theoretical background. First of all, we give an introducing overview of corporate governance in football, followed by a discussion of legal status, ownership models and share- and stakeholders interests. After that, we discuss the role of board executives (characteristics) influences on the football club's performance. Furthermore, we debate the football industry, the performance goal of football clubs and the trade-off between sportive and financial performance. Finally, we explain the relation between performance preferences and governance in football, and describe the potential influence of board executives with a background in football on performance.

2.1 Corporate Governance in Football

Originally, most professional football clubs were characterised by an organisation governance that included a committee that was elected by the football club's members (Buraimo et al, 2006). However, during the 20th century football became more popular and (spectator) revenues, and following, player wages raised intensively (Harvey, 2005). As a result, the football industry changed from a regular 'sport' industry into a 'business' industry. This new football industry necessitated additional levels of finance to continue growing (Hamil and Walters, 2009). Therefore, football associations like the FA (UK) and KNVB (The Netherlands) allowed football clubs to 'professionalize' and, to protect committee members for personal liability, convert into private companies with limited liability. Nowadays, these private limited companies are the dominant used legal structure in (Dutch) professional football. Those (new) private limited companies include shareholders, who

magnified the opportunities for football clubs to attract extra finances to raise player wages even further to improve sportive performance (Zimbalist and Szymanski 2002, Szymanski and Smith 1997, Andreff 2007). Admittedly, the focus on sportive performance contains a potential risk, which is in hands of the football club's board of directors. They should be aware of blindly focussing on achieving the sportive performance goals at all costs. Because this could result in expenses so high, that it leads the football club into bankruptcy. Interestingly, this financial risk would probably enhanced by attracting (more) board executives with a football background, since their primary goal is sportive performance. However, we discuss this issue later on.

Institutional governance

Essentially, the Dutch football association determines the minimum required governance structures that football clubs should satisfy.⁴ They obligate football clubs to hand in financial information three times a year and set minimum standards for safety, personnel, youth academies and require the football club to have a board of directors. Basically, the football clubs are accountable to, and external controlled by, the football association. However, the football association does not prescribe a minimum required governance model, where for instance the organisation structure and internal controlling systems are stated. Instead, football clubs are free to create their own governance models according to what they find appropriate. These governance structures depend mainly on their legal status, which altered over the last decades and will be discussed later on.

Legal status and governance mechanisms

Over the last years almost all Dutch football clubs (27 out of 34) converted into private or public limited companies. This large scale conversion did not only occur in the Dutch football league. For instance, almost all English football clubs converted into PLC's, 84 out of 86 (Hamil and Walters, 2009). Though, some Dutch clubs are still foundations ('stichtingen') without shareholders, most clubs do have a separation between the owners and executive board. In most of the Dutch football clubs we therefore observe a two-tier board (Dulewicz, Macmillan and Herbert, 1995), separated in a daily management (executives) and a supervisory board (non-executives). This supervisory board often functions as a controlling mechanism on the executives to prevent potential risks and in addition, evaluates the performance of the football club. According to Higgs (2003), an effective performing supervisory board could already control for most of the potential hazards that companies face. Generally, the supervisory board controls the board of executives by agreeing on clear performance objectives with the daily management and then strictly monitor the reporting of this performance. Moreover, supervisory boards correlate positively with firm's total performance since

⁴ <https://ebv.knvb.nl/uploads/PX/9y/PX9ypG80eFBsQjDTn-uhwQ/120216-Handboek-Bestuurd-Betaald-Voetbal--def.pdf>

the firm's "delegation to, and monitoring of management is more efficient due to internal controls" (Dulewicz and Herbert, 2004). Of course, there are other governance mechanisms for internal control and improving the company's performance, such as CEO compensation, as we observe in many public limited companies (Coles, Williams and Sen 2001). However, we do not observe these mechanisms at football clubs. Instead, Michie and Oughton (2005) state that the standards of corporate governance of football clubs are still significantly below those of listed companies. Most football clubs have no internal risk control and business planning systems and therefore fully depend on the effectiveness of the supervisory board. Consequently, football clubs mainly depend on the performance of their directing board executives and controlling owners (shareholders).

Ownership models and shareholder's interest

Interestingly, in many cases the shareholders of the football club are represented by the originate football club members (Buraimoo et al, 2006). These club member's shareholders prefer sportive performance over financial performance (Hamill et al, 2010). Therefore, they control and evaluate the board of directors on their sportive successes. Moreover, in other ownership models, football clubs are owned by their supporters, 'the supporter trust model', or (foreign) investors (Walters and Hamill, 2009). Both supporters and (foreign) investors chiefly care about sportive performance. These (foreign) investors own football clubs to receive global notoriety and fame. They approach the football club as a 'trophy' asset and therefore do not care about financial performance. In fact, sportive success determines the value of the asset. Since the 1990's, a third football owner governance model is introduced; the stock market model of ownership. According to this model football clubs sell their shares at the stock market to attract additional levels of finances, and therefore become public limited companies. In general, according to classical economic theory (Fama, 1965) stock market investors are assumed to invest in stocks to enlarge their financial positions. However, Renneboog and Vanbrabant (2000) show that investments in English football clubs on the London stock exchange substantially underperformed the market index. Moreover, the Dutch listed football club Ajax only paid dividends once over the last ten years.⁵ This suggests that even these public shareholders do not (only) invest because of a financial incentive. Therefore, it is likely that the interest of football club's shareholders, regardless of the governance owner model, is rather focussed on sportive performance than financial performance. Since these shareholders decide who takes a seat on the executive- and supervisory board, they will probably appoint executives and supervisors who take care of their sportive interests. If we assume that board

⁵ <http://www.beursgorilla.nl/fonds-informatie.asp?naam=Ajax&cat=dividenden&symbol=&instrumentcode=24479&subcat=12>

executives with a background in football are capable to improve sportive performance, they fit the model to satisfy the owners expectations.

Stakeholder interests

According to Rose (2007) board executives should in general reflect the firm's stakeholders, to improve the performance of the firm in line with these stakeholders. In football, even though some stakeholders (financial managers, suppliers) care about the financial performance of the football club, the major stakeholders (spectators, sponsors, TV broadcasters, social community) care mainly about the sportive performance of the football club (Senaux, 2008). These stakeholders become increasingly influential on the governance and performance preferences of the football clubs (Holt, 2007). Basically, the board executives with a football background and these stakeholders represent the same interests. This offers potential to successfully improve sportive performance of the football club (Dulewicz and Herbert, 2004). Moreover, there will be less threats and burdens because of counteractions by external stakeholders (Freeman, Martin and Parmar, 2007). For instance, when board executives represent other interests than the major stakeholders, who for example prefer financial performance over sportive performance, football clubs experience counteracting pressure of stakeholders. Hence, when a football club would mainly focus on financial performance at the cost of sportive performance, spectators and sponsors will counteract to encourage the board to invest in player wages to improve sportive performance (Zagnoli and Radicchi 2010). Though, there is nothing wrong with a financial performance strategy, the gap of interests between stakeholder and the board would probably cause frictions that causes the board operate less efficient and deteriorate the total performance of the football club. Therefore, under the assumption that football clubs determine a clear sportive performance strategy, adding (more) 'football' expertise on the board makes sense. Generally, when we assume that these board executives are better capable to cope with sportive goals, these executives could (effectively) improve the utility of the football club's stake- and shareholders. Whether these executive's 'football' background could improve sportive performance will be discussed in the next section.

2.2 Board executives characteristics

In this section we discuss the influence of board characteristics on the football club's performance. Moreover, we debate our main research variable and question the potentially added value of board executives with a background in football on the sportive performance of the football club. In addition, we introduce a number of board characteristics that could influence the performance as well. These variables will be used as control variables in our model.

Professional background

In their paper about board dynamics and the influence on firm performance, Walt and Ingley (2003) introduce the board executive's 'professional and personal' background as a component explaining the firm's performance. They argue that the professional and/or personal background of a board's executive represents experience, knowledge, skill and expertise. This expertise could positively influence the financial performance of the company when it matches the company's industry. Hence, these executives developed 'human capital', that enables them to improve the company's performance (Yukl, 2008). These findings are in line with other empirical studies (Milliken and Lant, 1992; Smith et al, 1994; Simons, 1995) who find evidence that professional background improves sales, return on investments (ROI), profitability and future performance. Undoubtedly, since share- and stakeholders encourage board executives to focus on sportive goals, we expect that football clubs could improve their sportive performance by adding board executives with a professional background and expertise matching their industry, football. Therefore, we expect that executives with a football background will positively influence sportive performance and examine this in our empirical section.

Other characteristics

In addition to background, a number of other board executive's characteristics could influence the performance of the football club. First of all, in their study on the Fortune 1000⁶ firms Carter, Simkins and Simpson (2003) find that minorities, as women (gender), significantly influence the firm's value. They argue that this is mainly because of the diversity that results from adding other minorities to the board. Furthermore, Hermalin and Weisbach (1991) state that also the executive's tenure on the board could influence the firm's performance. They argue that a longer tenure could reflect above-average abilities, since these executives are not fired before. On the other hand, they debate that executives should not stay too long on the board because over time they lose their flexibility, what consequently would harm the firm's performance. Hence, they find evidence that a tenure over fifteen years significantly harms profitability. In addition, we find evidence that age negatively explains company performance (Guest, 2009). Finally, we consider the influence of board size on performance of the football club. Basically, a various set of (empirical) studies, concerning Europe and the US, conclude that increasing the board size negatively impacts profitability (Eisenberg et al 1998, Guest 2009, Conyon and Peck 2010). These companies with larger boards are assumed to be less effective because of poor communication and decision making. Although, football clubs have relatively small conservative and unilateral boards with little diversity in gender, tenure, age and board size, it is

⁶ <https://connect.data.com/directory/company/fortune/1000>

interesting to notice that these characteristics could influence the football club's performance. Therefore, we will control for these executive characteristic variables in our model.

2.3 Football Industry

Earlier on, we argued that from a stake- and shareholder perspective we expect football clubs to aim for sportive performance. Therefore, we needed executive's with a background in football to improve sportive performance. In this section we debate whether football clubs actually behave as (sportive) win maximizers and question what will be the consequences for the financial performance of the football club.

Win or Profit Maximization?

According to Zimbalist (2003) the football industry is unique from other businesses and not (only) characterized by the focus on financial performance. Instead, football clubs compete both financially and 'sportively'. He argues that clubs in theory aim for maximizing the owners utility which could be a combination of both sportive and financial goals. Moreover, most studies even suggest that football clubs are 'win' maximising behaviourists, entirely focussing on the sportive performance of the football club. Corresponding with previous research from Sloane (1971) and Késenne (1996), the researchers Garcia-del-Barrio and Szymanski (2009) observe empirical evidence that "football clubs are more closely approximated by sportive 'win-maximization' behaviour than by 'profit maximization' behaviour. This corresponds with the concern of stakeholders about sportive performance and the desire to improve sportive performance of the football club by adding sportively backgrounded executives on the board. However, although football clubs aim for sportive successes, they should also aim for a 'zero profit budget constraint' to remain financially solvable on the long term. This means that football clubs should maximize their sportive performance within the boundaries of finances and should at least perform financially 'break-even' (no profit, but also no deficit). Therefore, it is interesting to examine whether these sportively backgrounded executives on the board are capable to improve sportive performance of the football club and at the same time stick to this 'zero-budget' constraint.

Trade-Off Theory

Ideally, football clubs who aim for improving sportive performance should improve their financial performance automatically since intuitively, better quality would lead to higher spectator-, sponsor- and TV revenues. However, analysing the football industry, we observe the opposite. Generally, we find financial failure (deficits) for most of the football clubs in the Belgium, Dutch⁷, English, French, German and Spanish football leagues (Andreff 2007, Dejonghe 2010, Garcia-Del-Barrio and

⁷ <http://www.hetseizoenincijfers.nl/index.php?p=algemeen&s=bedrijfsresultaat&b=ej>

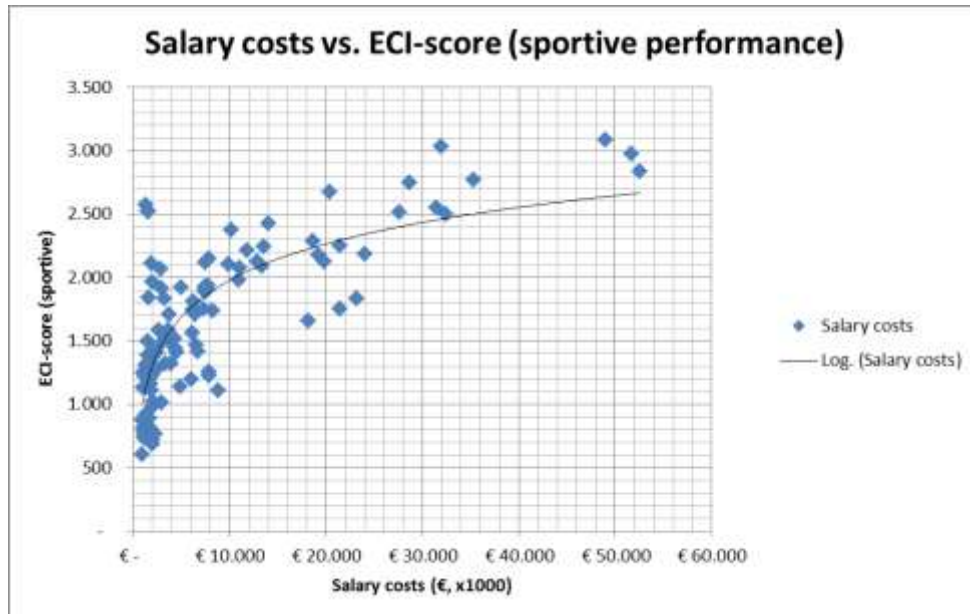
Szymanski 2009, Dietl and Franck 2007). This financial failure is even larger according to the sportive superpowers, for instance Barcelona and Real Madrid (Barrajas and Rodriguez 2010).

Therefore, Garcia-del-Barrio and Szymanski (2009) state that football clubs face a 'trade-off' between financial and sportive performance. In their research paper about the English and Spanish football leagues, they argue that football clubs managements continually face trade-off choices between financial- and sportive goals. This is illustrated by their model where they assume that (increasing) wage expenditure improves players quality and thus sportive performance, but, *ceteris paribus*, increases operating costs and therefore reduces operating profits. They emphasize a negative correlation between both financial and sportive outcome performances, and therefore conclude that a trade-off exists. Consequently, the board executives of football clubs face this trade-off as well, and therefore by aiming for the one, they indirectly harm the other performance. As a result, in the case of adding executives with a football background it seems reasonable that they will focus, and improve, sportive performance and, vice versa, will harm financial performance. In our empirical section we will examine the trade-off hypothesis.

Player wages: The link between financial and sportive performance

Andreff (2007) confirms the existence of a trade-off between sportive and financial performance in French football and appoints the French football clubs as 'non-profit' maximizers aiming for sportive success at all costs. These costs constitute the link between financial and sportive performance. Generally, football clubs (managements) are convinced that they are able to 'buy' their sportive success by investing in qualitative better platers. Hence, they expect to improve their sportive performance by investing (more) in player wages. As a result, they increase their wage costs and consequently reduce their operating profits. This positive relation between investing in players (quality) and sportive performance is confirmed by Barajas and Rodriguez (2010), who empirically examined the relationship between wages and sportive performance for the financially distressed Spanish Football League. They find a clear positive relationship between wage and sportive performance. This strong relation between player wages and (sportive) performance is not unique for the football industry. In fact, researchers find comparable evidence in other sport industries. For instance, Hall, Szymanski and Zimbalist (2002) find a positive correlation between payroll and sportive results for the American baseball industry. Moreover, they argue that as a consequence of globalizing and opening the football player markets for (young) talented players the causality between payroll and performance in football should be even strengthened compared to the major baseball league. These baseball clubs face more restricting agreements that limit player spending, player mobility, roster sizes and rights to trade compared with football. However, since the Bosman arrest in 1995 (Dejonghe, 2005) most of these restrictions are absent in the football industry.

Therefore football clubs are even better capable to benefit from the wide variety of player talents to buy success.



Graph 1: The (cor)relation between salary costs and sportive performance for the Dutch football leagues during the seasons 2011-2014

Furthermore, In their research paper based on the English professional football league, Szymanski and Smith (1997) find a convincing 92% (positive) correlation between wage costs and sportive performance. This is consistent with our data, where we observe a correlation of 73% between wages and sportive performance for the Dutch football leagues (Graph 1). In our empirical section, we examine the relation between wages and performance. For now, we assume that wages indeed positively explain sportive performance. Therefore, we expect the executives with a football background to use this mechanism to improve sportive performance football club. Consequently, based on the trade-off theory, it follows that these executives will probably (negatively) influence financial performance. This influence on financial performance will be debated in the next sections.

2.4 Football Governance in practise and the influence of board executives on financial performance

Catching up, football clubs are win-maximisers aiming to improve sportive performance conformed to a zero-budget constraint (Garcia-del-Barrio and Szymanski 2009). Therefore, board executives face a different set of sportive performance goals which could be achieved by investing (effectively) in talented players. Hence, to improve sportive performance, the football club's executives should increase players wages. However, according to the trade-off theory between sportive and financial performance, investing in sportive performance (increasing player wages) is at the cost of financial performance. This is confirmed by analysing the financial position of football (Andreff 2007,

Dejonghe 2010, Garcia-Del-Barrio and Szymanski 2009, Dietl and Franck 2007). While football clubs try to improve their sportive performance, we observe financial losses on a large scale in almost all European leagues. In this last section we explain why football clubs record financial deficits.

Moreover, we discuss why board executives, shareholders and governance mechanisms do not prevent this financial failure. Finally, we debate the possible influence of adding the football club's board executive with a background in football on financial performance.

The arms race for football players

Basically, the assumption that football clubs can buy sportive success does not directly explain why they fail on financial performance (Andreff 200, Dejonghe 2010, Garcia-Del-Barrio and Szymanski 2009, Dietl and Franck 2007). This financial failure is explained by the 'arms race' for football players. Generally, the idea that paying higher player wages would lead to attract qualitatively better players, improving sportive performance, stimulates football club managers to get involved into an 'arms race' for the best players (Andreff, 2007). In this 'arms race' football club's executives are pushed by their stakeholders to sportively outperform their rivals (Senaux, 2008). Consequently, they are even willing to pay higher wage costs than the total revenues earned, to reach their sportive goals.

Therefore, they exceed their own budgets and lead the football club into financial failure. Hence, introducing football backgrounded board executives on the board, who probably will primary focus on improving sportive performance, could even amplify this effect. In fact, Barajas and Rodriguez (2010) even designate this 'arms race' as the explanation of the whole financial crisis in Spanish football. This raises the question why such financial failure is not prevented by the shareholders and/or governance mechanisms of the football clubs.

Moral hazard

Andreff (2007) argues that French football financially failed because of 'weak' governance. He defines two instigators as an explanation for breaking the zero-budget constraint and possibly even more important, explains why this financial failure is detected too late by the external (football association) and internal (supervisory boards) control mechanisms. First of all, he states that football clubs are characterised by lax financial management who approach the zero-budget constraint as a soft-budget constraint (Storm and Nielsen, 2012) resulting into higher expenses than allowed. The reasons for football clubs to exceed their own budgets to improve sportive performance is according to Andreff (2007) based on both the pressure of external stakeholders (who demand sportive successes at all costs) and on an underlying moral hazard incentive. Generally, when football clubs are sportively underperforming and for instance there is a chance that they will be demoted, they concern more about sportive performance than financial performance. As a result, they make high-risk investment decisions to improve sportive performance (Franck and Lang, 2012). In fact, the

football club's executives and owners do not experience bankruptcy as an realistic option since (public) institutions and (potential) external investors form a safety net. When a football club falls into bankruptcy there is a big chance that one of these potential funders will support the football club. These external funders will, when necessary, support the club with financial funding and investments because of their own interests. For instance, private investors would already support the club because they are cheering the team. Moreover, many football clubs are of great social-cultural importance for the surroundings that they are 'too big to fail' and probably will be saved by the authorities (Franck, 2014). This causes the football club's management to feel themselves insured against bankruptcy. Therefore, they undertake excessive financial risks to achieve the sportive performance goals of the club. This moral hazard effect would probably also apply to, and possibly amplified by, adding (more) football backgrounded executives on the board, who will mainly focus on sportive performance.

'Weak' Governance: External control

Importantly, while most stakeholders (including the football association) do prefer sportive performance on the short term, they probably even care more about the long term existence of the football club, which depends on financial health. Therefore, you would expect external authorities to intervene and disapprove such behaviour. For instance, when the football associations inspects the financial statements of the football club. However, Andreff (2007) states that due to a lack of (external) transparency it is difficult to discover this financial failure of the football club's management (on time). Moreover, football clubs are solely responsible for completing the financial statements⁸. As an result, the football association has to trust that these statements are truthfully completed. However, football clubs that experience financial difficulties could intentionally mislead the football association. Therefore, financial failure is often detected too late by external control.

'Weak' Governance: Internal control

Generally, the internal control of football clubs lack as well, since most clubs are characterised by 'weak governance' and unilaterally internal governance mechanisms. In fact, the only internal control system that football clubs use is the control of a supervisory board. Hence, Andreff (2007) defines the weak governance as a lack of (financial) supervision by the shareholder on the football club's management. Although supervisory boards are a well-recognized governance control mechanisms (Higgs, 2003), in football, these boards are mainly represented by the shareholders of the club. As discussed before, these shareholders share the interests of the executives and do mainly care about, and hence only control, sportive performance. Therefore there exists a risk that they do not monitor

⁸ <https://ebv.knvb.nl/uploads/PX/9y/PX9ypG80eFBsQjDTn-uhwQ/120216-Handboek-Bestuurdere-Betaald-Voetbal--def.pdf>

the financials strictly enough as long as the football club is sportively performing well. Moreover, when the football club sportively underperforms, they could be mild or even encourage the executive to improve sportive performance at all costs (Franck and Lang, 2012). As a result, the executives will possibly even magnify their wage costs and lead the club into financial failure. Though, even when supervisory boards want to control intensively on financial performance they miss the technology to do this effectively, since most football clubs have no internal risk control and business planning systems. Therefore, football clubs entirely “sail on executive’s sense and luck” (Michie and Oughton 2005). Generally, we assume that these supervisory boards are not capable to prevent financial failure and/or improve financial performance. We will examine the influence of these supervisory board in the empirical section.

The role of football backgrounded executives according to financial performance

Since governance external and internal control mechanisms fail, there exists a huge responsibility for the football club’s board executives. They should well-disciplined manage the financial stability of the football club themselves, while they aim for improving sportive performance. Consequently, this lack of governance creates a risk for the football club that the executive, encouraged and/or pushed by their stakeholders to improve sportive performance, lead the club into financial failure without stake- and shareholders noticing and/or intervening. Moreover, since executives compete in the ‘arms race’ and approach their budgets to be ‘soft’ (Storm and Nielsen, 2012; Andreff 2007) they are inclined to exceed their budgets. Therefore, when adding football backgrounded executives on the board who will mainly focus on sportive performance, a strong (independent) governance structure which does not only focus on sportive performance, but on financial performance/stability as well seems required to ensure that the football club does not fall into financial failure (Coles, Williams and Sen 1999). However, under the current (weak governance) conditions, we expect that the football backgrounded executives will worsen the financial performance of the football club. This hypothesis will be examined in the empirical section.

2.5 Hypotheses

During the empirical phase of this paper, we will examine the assumed hypotheses based on the theoretical background above. First of all, since Dutch football felt into a sportive crisis, stakeholders proposed to add and/or replace the current board executives by (new) executives with a background in football. Generally, we expect that football clubs are capable to buy sportive success by investing in player wages (Szymanski and Smith 1997, Barajas and Rodriguez 2010). Therefore, we first examine the underlying condition whether:

H1: There is a positive relation between wage costs and sportive performance of the football club

Clearly, we concluded that the background of an executive, when it represents industrial expertise, could improve the performance of the company (Walt and Igley, 2003). In this case, the background represents a history in football (as a player) and we expect this background in football enables the executive to effectively buy sportive success by investing in player wages and as a result improve sportive performance of the football club:

H2: This paper states that the presence of an executives with a football background on the board improves the sportive performance of the football club

When executives focus on sportive goals, they use the payroll mechanism by (extra) investing in player wages to improve sportive performance, at all costs (Frack and Lang 2012). Even when the expenses exceed the total budgets of the football club, which leads the club into financial deficits. Therefore, focussing on improving sportive performance could harm the financial performance of the football club, defined by the 'trade-off' theory (Garcia-del-Barrio and Szymanski 2009). Therefore, we examine the underlying assumption if:

H3: There exists a negative trade-off between the sportive performance and financial performance of the football club

Finally, we assume that board executives with a football background mainly focus on improving the sportive performance of the football club. According to Franck (2014), we expect these football backgrounded executives to take excessive financial risks to reach their sportive goals. In combination with the weak governance of football clubs (Andreff, 2007) the football backgrounded executives are free to expend on player wages to improve sportive performance. Consequently, we assume that this results in a negative 'trade-off' effect on financial performance. Therefore:

H4: This paper states that the presence of an executive with a football background on the board worsens the financial performance of the football club

Generally, we argue that executives with a football background will improve the sportive performance of the football club, and consequently, the presence of these executives will worsen the financial performance of the football club.

3. Data and Methodology

This section contains a description of the data and methodology of this paper. First of all, we explain the data selection. After that, we give a brief description of the purpose and characteristics of the data. Finally, we describe the methodology used in this paper.

3.1 Data selection

Basically, the data contains firm variables of all 34 Dutch professional football clubs over the seasons 2011/'12, 2012/'13 and 2013/'14, a total of 102 observations. This data is derived from the public annual reports of the clubs. From these public annual reports we collected data including operating profits, total revenues (budgets), wage costs, legal status of the organizations and the presence (or absence) of a supervisory board. Besides, we assembled sportive performance scores, which are formulated as ECI scores⁹.

Furthermore, over the season 2013/'14, we assembled data concerning the board characteristics. These characteristics include the age, tenure, gender and professional background, which is defined as one in football or not, of the board executives. In addition, we observed the total number of board executives of each club, defined as board size.

3.2 Descriptive data statistics

This section explains the purpose of all dependent and independent (control) variables and additionally outlines the data characteristics of these variables. First of all, we describe the financial variables. After that, the sportive variables and as third, the governance variables. Finally, we describe the board characteristics of the executives.

Financial variables

In table 1 we outline a brief overview of the financial variables. First off all, we gathered total **operating revenues** and total **operating costs**, here we exclude transfer fees income. Basically, we assume that transfer fee revenues are incidentally and uncertain, and therefore not considered in estimating the (wage) budgets. Moreover, Szymanski and Smit (2002) examined the influence of transfer fee spending and argued that the transfer fee expenditure do not explain a football club's (sportive) performance. That is why we exclude transfer fees from our research. Furthermore, by subtracting the operating costs from the operating revenues of the football club we calculate **operating profits**. These operating profits represent the financial performance of the football club. Finally, we observed **wage costs**, including all wages payed by the football club to personnel. All though the office staff wages are included, the total wage costs consist mainly of salaries paid to the players of the team. Therefore, we assume that the wage cost variable fits the model. Generally,

⁹ <http://www.euroclubindex.com/asp/Methodology.asp>

according to the theory we discussed during the literature review (Szymanski and Smith, 1997), we expect that (increasing) wage expenditure (positively) explains the sportive performance of the football club.

Analysing panel A, table 1, we observe that the total revenues of all clubs during these three seasons (2011-2014) were on average 14,5 million euros, while total costs were meanly 1 million higher, resulting in an average operating loss of 1 million euros for each individual football club. However, clubs do differ a lot in size and output, which we observe in the minimum and maximum values of all financial variables. For instance, the football club with the highest turnover, Ajax Amsterdam (105 million euros), is seventy times 'as big' compared to the lowest turnover (1.5 million), belonging to FC Oss. Moreover, we observe significant differences according to operating profits. These range from deficits over twenty million euros to positive operating profits that almost count fifteen million euro's. Therefore, we are not able to compare financial performance in absolute values and instead, will calculate a profit margin ratio as an indicator for financial performance:

$$\text{Profit margin ratio} = \frac{\text{Total operating revenues}}{\text{Total operating costs}}$$

We assume that these profit margins enable us to compare the smaller and larger football clubs. As a result, we are able to derive (better) conclusions based on our panel data that consists of various football clubs according to size and output. From panel A we observe that profit margins range from 0.35 to 1.17 and on average value 0.91. Finally, we analyse wage costs, that reach from €936.000 to 52,5 million euros and on average represent 56% of the total operating costs of a football club.

Sportive variables

The sportive performance of a football club is measured by their sportive euro club index (ECI)-score. These variables represent the expected level of sporting success of the football club and are derived from historical and actual sporting results in national league matches, in national cup matches and in the European league matches concerning the UEFA Champions League, UEFA Europa League and UEFA Super Cup. Generally, the methodology of these ECI scores is explained as:

"... The result of every match will change the ECI-value of both teams that played. The estimated outcome of the match (a real number between -1 and 1) is compared with the real outcome of the match (1 for home win, 0 for draw, -1 for away win). The difference between the two numbers is multiplied by a constant, the k-factor. The result is added to the home team ECI and subtracted from the away team ECI. Example: a match between team X with ECIX = 2,400 and team Y with ECİY = 1,900 has an expected result of: $1 \times 66\% + 0 \times 19\% - 1 \times 15\% = 0.51$ The table shows the changes in ECI based on the match result (in this example the k-factor = 35)..."

Source: <http://www.euroclubindex.com/asp/Methodology.asp>

In fact, the updated ECI-values reflect the changes in playing strength over the years. Hence, the team that performs better than expected will go up on the euro club index, and consequently, the team that performs worse than expected will go down on the ECI. Therefore, we assume that this ECI-score reflects the entire sportive performance of the club.

Basically, we used the ECI-scores at the end of each season. These average ECI-scores over the three seasons range from 605 (lowest sportive performance) to 3.083 (highest sportive performance). Furthermore, the average sportive score during the three seasons counts 1.668. Remember that these scores are not only valued by competing with clubs from the Dutch football league, but also by competing in the European leagues. Since our data reflects three seasons we add a season variable that either takes a value of 1 (2011/'12), 2 (2012/'13) or 3 (2013/'14). This variable is included to control for time effects. Basically, when Dutch football clubs sportively underperform (over the seasons) against European opponents, as argued by Johan Crujff, we expect the average ECI-scores of all Dutch football clubs to fall. Therefore, we control for the effect of seasonal trends. Moreover, this season variable would also detect financially time effects that affect financial performance. For instance, this season variable would partially control for the effect of a financial crisis on the football industry.

Governance variable

Generally, football clubs face no prescription of governance structures and mechanisms by their football association¹⁰. Therefore, they rely on their own inventions to implement governance mechanisms. However, according to the earlier discussed literature (Michie and Oughton, 2005; Andreff, 2007) football clubs contain 'weak' governance systems, where monitoring and controlling is essentially done by a two-tier board system which consists of an executive board and a **supervisory board**. Since football clubs lack further internal risk control and business planning systems, this supervisory board is considered to be the only governance measure football clubs are using. These supervisory boards control for risks concerning both the financial and sportive performance of the football club. Though, we expect the supervisory board to effectively contribute to sportive performance (Higgs, 2003), we questioned (Andreff, 2007) the functioning of these supervisory boards on financial performance. Because we observe that football clubs seem not to be rectified by this supervision to appearance financial failure (Barajas and Rodriguez, 2010). Instead, when the supervisory board prefers sportive performance it could even allow the board executives to improve sportive performance (by wage expenditure) at the costs of financial performance which leads the

¹⁰ <https://ebv.knvb.nl/uploads/PX/9y/PX9ypG80eFBsQjDTn-uhwQ/120216-Handboek-Bestuurders-Betaald-Voetbal--def.pdf>

club into financial failure. Therefore we include these supervisory boards into our model to control for the (governance) influence on both the football club's sportive and financial performance. When we analyse the 34 Dutch football clubs over the season 2013/14 we observe that 27 of the 34 football clubs contain a supervisory board (Panel C, table 1).

Football clubs differ in **legal status** and ownership (finance) models. Though, we do not possess information about the owners of the football clubs, these ownership (finance) models are largely represented by their legal status (Hamil and Walters, 2009). Therefore we use a legal status variable to control for ownership and governance influence. Basically, we distinguish three legal forms which are discussed during the literature review. First of all, football clubs can (still) be 'foundations' (stichtingen), which are non-profit organisations containing only a committee elected their members (Buraimoo et al, 2006). Hence, these foundations are not owned by (rich investors) and experience more difficulty to obtain finances (Hamil and Walters, 2009) that are necessary to compete financially and sportively with their rivals (Harvey, 2005). Therefore, we expect these foundations to be less effective in (improving) both financial and sportive performance. From panel C, table 1 we can observe that only 7 of the 34 football clubs are (still) 'foundations'.

Furthermore, we observe football clubs that contain a private or public limited legal status. Generally, in Dutch football we observe more private limited companies (19) than public listed football clubs (8) as presented in panel C, table 1. Both legal forms are characterized by a (liability) separation of owners and board executives. Due to their PLC status these clubs are able to attract more finances to raise player wages, and hence, potentially could improve financial and sportive performance (Harvey 2005; Szymanski and Smith 1997; Garcia-del-Barrio and Szymanski 2009). Moreover, private limited companies are sometimes characterized by a (foreign) investor ownership model. This implies that a rich (foreign) investors buys the football club's shares as a 'trophy' asset (Hamil and Walters, 2009) and therefore, provides additional finances to improve performance. In addition, we observe Therefore, football clubs with a private limited status feature larger potential to improve performance than 'foundations'.

Public limited companies have public shareholders that are freely and even more easily (than private limited companies) attracted to buy shares to become an owner of the football club. Though, most football clubs are no recommendable financial investments (Renneboog and Vanbrabant, 2000), these shareholders do provide additional finances that could be used by the football club's management to improve performance.

Generally, we assume that freestanding of performance preferences, football clubs that possess over more finances should be capable to outperform their rivals since they could invest in both future

sportive and financial performance (Zimbalist, 2003). In fact, we expect that these finances are certainly used for improving sportive performance since we assume that all owners and committees are win-maximisers (Sloane 1971, Késenne 1996) and will primarily focus on sportive performance. However, according to classical economic theory more sophisticated legal forms (PLC's) do require more governance measurements to overcome agency problems (Fama, 1980) and additionally public listed football clubs could attract some profit-maximizing investors (Friedman, 1953). Therefore, their legal status could also positively influence financial performance. As a result, we expect the legal status variable rather to influence both performances positively than negatively.

Board characteristics

Panel D (table 1) summarizes the collected data according to the characteristics of the Dutch football club's executive boards for the season 2013/'14. First of all, we conclude that football club's boards are relatively small. Hence, the average board size barely represents two participating board executives. On average, we observe that these board executives are 47,5 years old, and stay about three years on the board. Remarkably, we find that testing for gender will not be valuable since (while we do observe some female executives in the past seasons) in the season 2013/'14 we observe no women participating on the executive boards of the Dutch football clubs.

Finally, our major independent variable for the models in the empirical section, is the professional background in football, or not. Basically, only 12 out of the 34 football clubs (35,3%) contain at least one executive with a (professional) background in football. All though, it is possible that the football minded employers are participating in a lower level of the organization, for instance the football manager and staff, it strikes that we do not observe more than half of the clubs containing an football backgrounded executive in the top level of the organization.

Table 1:
Descriptive statistics of panel data. Panel A and B contain financial and sportive scores originating from the 34 Dutch officially licensed professional football clubs over the seasons 2011/'12, 2012/'13 and 2013/'14. In addition, panel C and D contain organizational governance data characteristics over the season 2013/'14.

Panel A: Financial variables (€, x 1000)	Average	Minimum	Maximum
Operating Revenues	€ 14472	€ 1597	€ 105629
Operating Costs	€ 15640	€ 1649	€ 95627
Operating Profits	€ -1168	- € 21392	€14898
Wage costs	€ 8806	€ 936	€ 52584
Profit Margin	0.91	0.35	1.17

Panel B: Sportive variable			
ECI	1668	605	3083
Panel C: Legal form			
	Number of clubs	Contain Supervisory board	
Foundation	7	71 %	
Private Limited Company	19	74 %	
Public Limited Company	8	100 %	
Panel D: Board Characteristics			
	Average (of 34 Dutch professional football clubs)		
Number of board members	1.8 board members		
Age	47.5 years		
Term	2.9 years		
Football Background	35.3 %		
Gender (male)	100%		

3.3 Pooled regression analysis

Before modelling the hypotheses with regard to the influence of the executive's professional background on the performance of the football club, we first examine the hypotheses (H1 and H3) that constitute the underlying assumptions supporting these hypotheses. We pooled our panel data over three seasons (2011-14, n = 102 observations) and estimate our models using the Ordinary Least Squares (OLS) pooled regression analysis's technique.

Sportive performance model: The impact of wage costs

The first hypothesis focusses on the relation between wage costs and sportive performance. Based on Szymanski and Smith (1997) we assume that increasing wage expenditure positively influences the sporting performance of the football club. This will be examined by a sporting performance model:

$$ECI_{it} = \beta_0 + \beta_1 (WAGE_{it}) + \beta_2 (TURNOVER)_{it} + \beta_3 (LEGAL_{it}) + \beta_4 (SUPERVISORY_{it}) + \beta_5 (SEASON_{it}) + \varepsilon_{it} \quad (1)$$

Where i denotes the observed football club, t defines time and ε_{it} estimates the residual of the model. First of all, the football club's sportive performance output is represented by the European Club Index, ECI_{it} . Furthermore, $WAGE_{it}$ refers to the football club's (labour) costs. According to $WAGE_{it}$ we notice the limitation that the variable covers both player and office staff salaries. Therefore, the effect of wages on sportive performance is slightly biased since we assume that especially player wages affect the sportive performance of the club, and possibly not the office staff. However, since the major part of $WAGE_{it}$ consists of player wages, we assume that the variable fits the model. As control variables for football club's (budget) size and input, we included $TURNOVER_{it}$ that represents the available budget of each club, and is equal to the total operating revenues of the football club. Furthermore, we added a variable ($LEGAL_{it}$) to represent the legal status of the football club. This variable could take either take 0 (foundation), 1 (private limited company) or 2 (public limited company) to control for the influence of the football club's legal status. Moreover, we included a binary dummy (control) variable ($SUPERVISORY_{it}$) that denotes the existence of a supervisory board, or not, to control for the effect of this governance mechanism. Finally, we included a $SEASON_{it}$ variable that controls for seasonal trends influencing the performance of the football club.

Financial performance model: Trade-off

In order to the trade-off theory (Garcia-del-Barrio and Szymanski, 2009) we assume that there exists a negative trade-off between sportive and financial performance. This suggests that football clubs that aim for sportive success, abandon their financial discipline to improve sportive performance at all costs. We examine this theory by formulating a financial performance model:

$$PROFIT_{it} = \beta_0 + \beta_1 (WAGE_{it}) + \beta_2 (TURNOVER_{it}) + \beta_3 (SUPERVISORY_{it}) + \beta_4 (LEGAL_{it}) + \beta_5 (SEASON_{it}) + \beta_6 (ECI_{it}) + \varepsilon_{it} \quad (2)$$

Where i denotes the observed football club, t defines time and ε_{it} estimates the residual of the model. Basically, the financial performance model contains two modifications compared to the sportive performance model. First of all, we derived a different dependent output variable reflecting the financial performance of the football club, $PROFIT_{it}$. This output variable is defined as the football club's operating profit margin, that is calculated by dividing the football club's total operating revenues by the club's total operating costs excluding incidental costs. Furthermore. Moreover, we included ECI_{it} as an input variable, instead of an output variable, to examine the trade-off effect between financial and sportive performance (Andreff, 2007).

3.4 Cross-Sectional analysis

In order to answer the major hypothesis of this paper we use a multiple cross-section regression analysis according to the data of the season 2013/'14. The following equations are estimated using the Ordinary Least Squares (OLS) regression analysis technique.

Sportive performance

To examine the influence of functional background on performance, we expanded our first sportive performance model (1) with five board characteristic variables:

$$ECI_i = \beta_0 + \beta_1 (WAGE_i) + \beta_2 (TURNOVER)_i + \beta_3 (LEGAL_i) + \beta_4 (SUPERVISORY_i) + \beta_5 (BACKGROUND_i) + \beta_6 (BOARDSIZE_i) + \beta_7 (AGE_i) + \beta_8 (TENURE_i) + \beta_9 (GENDER_i) + \varepsilon_i \quad (3)$$

Where i denotes the observed football club and ε_{it} estimates the residual of the model. Previously, we explained the first five (football club) variables. However, in this model we excluded the $SEASON_{it}$ variable, since the model only examines one season. Generally, we added $BACKGROUND_i$, which is a binary variable representing the presence of one or more executive(s) with a football background on the board (score 1) or no football-backgrounded executives on the board (score 0). In addition, we added control variables characterizing the total number of board members ($BOARDSIZE_i$), the average age of the executives (AGE_i) and average tenure ($TENURE_i$) of these executives on the board. Finally, we added a binary control variable for the attendance of female executives on the board ($GENDER_i$).

Financial performance

In addition, we also expanded the financial performance model (2) to examine whether the board executives with a football background negatively influence financial performance:

$$PROFIT_i = \beta_0 + \beta_1 (WAGE_i) + \beta_2 (TURNOVER_i) + \beta_3 (ECI_i) + \beta_4 (LEGAL_i) + \beta_5 (SUPERVISORY_i) + \beta_6 (BACKGROUND_i) + \beta_7 (BOARDSIZE_i) + \beta_8 (AGE_i) + \beta_9 (TENURE_i) + \beta_{10} (GENDER_i) + \varepsilon_i \quad (4)$$

Where i denotes the observed football club and ε_{it} estimates the residual of the model. Basically, all variables presented in this second financial performance model are defined as discussed before.

Importantly, we draw your attention that these last two models (3 and 4) examine the influence of board characteristics, and due to a lack of data, are only examined over the season 2013/'14.

3.5 Significance Test

In order to test whether our results of the fixed effects panel data models and cross-section analyses are significant we use the t-test. The t-test is a parametric test which assumes normal distribution.

Hence, we assume that our data is normally distributed. The t-statistic is calculated by the formula:

$$t = \frac{X - \mu_0}{S_X} \quad (5)$$

Where t denotes the t-statistic, X is the value estimated for the parameter, μ_0 is the expected value of the parameter and S_X is the standard error of the estimated parameter.

In the next section we analyse our main findings and results according to the previously theoretical background, formulated research questions and hypotheses.

4. Empirical Results

This section briefly discusses the main findings and results of our regression models, and furthermore, evaluates the formulated hypotheses by using these regression results. First of all, we examine the underlying assumptions explaining performance. After that, we debate the influence of the executive's background on sportive and financial performance of the football club.

4.1 Underlying assumptions

In columns 1 and 2 of table 2 we find the empirical results of the pooled cross-sectional regression models, that examine the underlying assumptions. First of all, we examine the sportive performance model and the relationship between wage costs and sportive performance (H1). After that, we analyse what explains financial performance of the football club and in specific, whether a negative 'trade-off' between sportive and financial performance exists (H3).

Both models are based on the 34 Dutch football clubs over the seasons 2011/'12, 2012/'13 and 2013/'14, a total of 102 observations. The models contain R-squares between 55% and 65%, and comparable adjusted R-squares. Furthermore, both models report significant F-tests at a 1% level. Therefore, the data (at least partially) fits the model.

Wages vs. Sportive Performance

Based on the previous discussed theories (Szymanski and Smith 1997) in the literature review, we expect that wage costs positively explain sportive performance. The dependent sportive performance variable is represented by the ECI score in column 1. Basically, the results meet our expectations, since we find that wage costs positively explain sportive performance at a 1%

significance level. This provides evidence that investing in (player) salaries improves sportive performance, which is in line with our hypothesis (H1). Apparently, these higher wage costs effectively represent quality on the field (Garcia-del-Barrio and Szymanski, 2009). Yet, we denote the limitation that the wage variable covers both player and office staff salaries. Therefore, the effect of wages on sportive performance is slightly biased since we assume that especially players (who act on the field) affect the sportive performance of the club, and plausible not the office staff. However, since the major part of these wage costs consist of player wages, we would expect that without the office staff (bias), the relation between wages and sportive performance would even be stronger. Furthermore, it appears that turnover of the football club is negatively signed to sportive performance at a 10% significance level. This is striking, since football clubs with larger budgets should be capable to attract better players to improve sportive performance. However, the negative sign could explain that larger clubs find it difficult to (keep) improving sportive performance, or moreover, are satisfied with their current sportive performance. Therefore, they use the rest of their budget to improve other interests, for instance social projects or financial performance, instead of additional investing in player wages to attract better players. Consequently, this is at the cost of sportive performance. Another explanation could be, that those larger football clubs are not capable to effectively improve sportive performance above a certain level of budget anymore. This could imply that the marginal effect of investing in sportive performance become lower, or even negative, when the total budget rises.

Interestingly, the season variable negatively influences sportive performance at a 5% significance level. This means that the Dutch football club's sportive results worsened over the years. Remember that the ECI-scores reflect sportive performance on both national and international level. In fact, losing points as a Dutch football club against an opponent from the Netherlands automatically adds points to another national football club. Since all Dutch football clubs are included, this could not influence the ECI-scores for our model. Therefore, the devaluation of sportive scores over the years is explained by the results of Dutch football clubs against other international football clubs. This is in line with the concerns of former legend Johan Crujff, who argues that Dutch football is in a sportive crisis and is falling behind on the rest of (international) football. Basically, the Dutch leagues are weakened over the years compared with the other European competitions. Finally, we observe no significant impact of the legal status and/or presence of supervisory boards on sportive performance.

Financial performance: Trade-off

Next, we analyse the second column of table 2, that represents the influence of the financial and governance independent variables on the financial performance of the football club, viewed as the profit margin (revenues/costs). We find evidence that turnover positively, and wage costs

negatively, explain financial performance at a 1% significance level. This makes sense, since both variables are part of the calculated financial performance, where revenues (turnover) improve financial performance. In addition, increasing (wage) costs is at the costs of operational profits. However, comparable with the impact on sportive performance, we do not find any significant impact of the legal status and limited used governance mechanism (supervisory board) on financial performance. Therefore, we do not find evidence that the presence of a supervisory board on performance (Higgs 2003) makes a difference compared with the absence of a supervisory board. Although not significant (p -value = 0.11, >0.1), we observe a negative coefficient according to the relation between sportive (ECI) and financial performance. This is in line with the trade-off theory (Barajas and Rodriguez, 2010), which states that football clubs that aim for sportive performance do this at the cost of financial performance. An possible explanation is that they get involved into an 'arms race' (Andreff 2007) for the best player talents and therefore are 'pushed and forced' to raise their wage costs and exceed their total budgets to improve sportive performance, which results into operating deficits. However, though the negatively sign is interesting, the coefficient is not significant according to our maximum significance level (10%) and therefore we could not accept the hypothesis (H3) for now.

Table 2

Results of our regression models 1-4 for both performances of the football club, sportive performance (models 1 and 3) and financial performance (models 2 and 4). Where the first two model are based on the seasons 2011/'12, 2012/'13 and 2013/'14 and predict the influence of the underlying assumptions of wage costs (1) and trade-off between sportive and financial performance (2). The models 3 and 4 are based on data according to the season 2013/'14 and include board characteristic variables to predict the influence of board executive's background in football on sportive (3) and financial (4) performance of the football club.

	(1)	(2)	(3)	(4)
	ECI	PROFITMARGIN	ECI	PROFITMARGIN
Variables:				
WAGE	0.06682*** (0.014)	- 0.00003*** (0.000004)	0.06485** (0.029)	- 0.00003*** (0.000007)
TURNOVER	-0.0144* (0.008)	0.00002*** (0.000002)	- 0.01201 (0.016)	0.00002*** (0.000004)
LEGAL	3.93525 (73.80)	0.00328 (0.016)	- 22.316 (141.24)	-0.02225 (0.032)
SUPERVISORY	-44.3640 (110.06)	0.00259 (0.023)	- 220.421 (214.82)	0.00819 (0.049)

SEASON	-98.262** (49.48)	- 0.00940 (0.011)		
ECI		- 0.00003 (0.00002)		-0.00002 (0.00006)
BACKGROUND			- 159.863 (204.32)	0.06150 (0.047)
BOARDSIZE			14.495 (98.55)	0.00396 (0.022)
TENURE			- 20.355 (31.49)	0.01226* (0.007)
AGE			0.342 (9.29)	0.00448** (0.002)
GENDER			<i>Omitted</i>	<i>Omitted</i>
Constant	1514.487***	0.99002***	1445.826***	0.71331***
R-Square	0.5675	0.6431	0.5740	0.6940
Adj. R-square	0.5450	0.6205	0.4377	0.5792
F-statistic	25.19***	28.53***	4,21***	6.05***
Observations	102	102	34	34
*** denotes p-value < 0.01, ** denotes p-value < 0.05, * denotes p-value <0.1 and brackets represent standard errors				

4.2 Board characteristics

In columns 3 and 4 of table 2 we find the empirical results of the cross-sectional regression, that examines the influence of the board characteristics on the performance of the football club.

Generally, we expect that board executives with a background in football will have a positive impact on sportive performance (H2) and a negative impact on the financial performance of the football club (H4).

Connecting the Models

Both our models in columns 3 and 4 are based on the 34 Dutch football clubs over the season 2013/'14, that count logically a total of 34 observations. The models contain R-squares between 55% and 70%. However, the adjusted R-squares are definitely lower ranging from 43 to 57%. This means that the influence off adding extra variables (such as the board characteristics) did increase the fit of the model (R-squared), but we should definitely be careful and take into account that a part of the

explanatory could be because of statistical luck and/or outliers. This is partially because of the relatively small sample size. However, both models report significant F-tests at a 1% significance level. Therefore, the data (at least partially) fits the model.

Despite the smaller sample size concerning only one season, the conclusions from the earlier pooled model over three seasons are still applicable. According to the financial performance of the football club, undoubtedly, the turnover sign is positive and therefore improving financial performance. Moreover, wage costs negatively explain the financial performance of the football club, while in line with Szymanski and Smith (1997) these wage costs positively signs the sportive performance of the football club, at a 5% significance level.

The Influence of Background

However, our major variable, the professional football background of the executives (BACKGROUND), does not show a positive sign according to sportive performance of the football club. This is inconsistent with our expectations. Despite the positive influence that professional background could have on the firm's performance because of enhanced expertise and knowledge of the industry (Walt and Ingley, 2003). Instead, we find a negative coefficient, though not significant. Therefore, we could prove our second hypothesis (H2) that states that an executive's professional background in football improves sportive performance of the football club. Moreover, the sign of our major variable (BACKGROUND) for financial performance is positive, though not significant. This is also inconsistent with our expectations since we expected these executives to worsen the financial performance of the club because the 'arms' race for talented players (Andreff, 2007) would cause a trade-off effect (Garcia-del-Barrio and Szymanski, 2009). Consequently, we do not find evidence for our last hypothesis (H4). In fact, we do not observe any significant impact of the background of executives on the football club's performance. This could be explained in several ways. An first explanation could be that the supervisory board, in contrast to our expectations, obstructs the executive from exceeding budgets to improve sportive performance at all costs. Hence, we do find a positive sign for financial performance and a negative sign for sportive performance for the supervisory boards variable (SUPERVISORY), though these variables are not significant. A second explanation suggests that the other executives on the board minimize the football backgrounded executive. Basically, many football clubs contain small boards and therefore executive colleagues could leverage each other. However, a larger board size should vanish this influence and consequently improve sportive performance. This is not the case according to our results since we, though positive, observe no significant sign for the influence of board size. Moreover, it is possible that not the background of the executive determines performance success, but for instance, other executive characteristics do. Although we do not observe any significant impact of board characteristics on sportive performance,

we actually do observe significant impact of age (at a 5% level) and tenure (at a 10% level) on financial performance. Moreover, both signs are positive, which is in contrast with our expectations (Hermalin and Weibach 1991; Guest 2009) where we expected that a longer tenure on the board and older age would negatively influence financial performance since those executives lose flexibility over time. However, apparently tenure and age in football improve financial performance. Possibly experience reflects quality and skill of the executive in football. A second explanation could be that these older board executives, who stay longer on the board than average, are more worried about the long-term performance of the football club. Therefore they do not exceed their total budgets to improve sportive performance at all costs, on the short-term. Instead, they care about the long-term existence of the football club and therefore try to stay financially solvable. In conclusion, since we do not find any significant impact of the professional football background on sportive performance, this could also imply that executives with a football background do not outperform the rivalry executives (without this expertise) of other professional football clubs. Somehow, these executives are capable to feature football knowledge and expertise, for instance by appointing a(n expensive) well-skilled football manager, to achieve their sportive goals. In this case, the possession over a large budget to invest in a well-skilled manager and talented players is enough to buy success..

5. Conclusion

In this section we briefly discuss our general conclusion, followed by the limitations of this paper and recommendations for further research.

5.1 General Conclusion

Dutch football is confronted with a sportively crisis. In this paper we examine what determines the sportive (and financial) performance of the football club. Generally, sportive performance is explained by the amount that football clubs invest in wages. In addition, we expected that adding executives with a background in professional football would positively influence sportive performance of the football club since their experience as a football player provides them the expertise to better cope with the football industry. For instance, by using the payroll mechanism more effectively to attract better player talents we expected these football backgrounded executives to outperform their rivals and improve sportive performance. However, we did not find evidence that this is true. Besides, we examine the subsequent influence of football backgrounded executives on the financial performance of the club. This mind-set is explained by the earlier discussed trade-off theory. This theory suggests that football clubs who aim for improving sportive performance do this at the cost of financial performance, caused by the 'arms race' (Andreff, 2007). We assumed that executives with a background in football will mainly focus on sportive performance and therefore, in

struggle for the best talented players increase wage costs as high, that it exceeds the total budget of the football club. Consequently, the football backgrounded executive worsens the financial performance of the football club in overall. Although we did find some weak evidence that the trade-off between sportive and financial performance occurs, we did not find evidence that executives with a background in football amplify this trade-off effect to worsen the financial performance of the club. Finally, we do observe some interesting findings. First of all, football club turnover (budget) is negatively related to sportive performance. This could indicate that football clubs with large turnovers do not want, or are not capable to, use these larger budgets (entirely) to improve sportive performance by investing in wages. Furthermore, we observe that other executive's characteristics do influence the financial performance of the firm. In fact, the tenure and age of the executive positively influences financial performance. This suggests that, in contrast with the major football industry, relatively older executives that stay on the board for a longer time focus more on financial performance, and hence, the long-term existence of the football club. However, further research is required to confirm these suspicions.

5.2 Limitations and recommendations

This paper has some limitations. First of all, the sample size of our dataset is relatively small. The analysis about the underlying assumptions is acceptable with 102 observations, but the analysis about board characteristics concerns only 34 observations. Although, there are no more professional football clubs in the Netherlands, this sample size is too small for signification. Hence, since we are not able to increase the number of football clubs, we would recommend a next research to involve more seasons. Consequently, this provides the researcher also the opportunity to observe the influence of changes in the football club's boards during the years. Even CEO turnovers. Moreover, we would recommend to involve football clubs from other countries because now, the results could be determined by specific country elements that only occur for the Netherlands. Finally, we would recommend to investigate deeper into the core of football club's performance choice and determinations of successes. For instance, which board characteristics determine the success of the football club, and what is the role of stake- and shareholders in this process. Interestingly, we found some evidence that older board executives, who stay longer on the board than average, are more worried about the long-term performance of the football club. This suggests that they do not exceed their total budgets to improve sportive performance at all costs, on the short-term. Instead, they care about the long-term existence of the football club and therefore try to stay financially solvable. These board characteristics relations to performance could learn us a lot about the successfulness, or not, of football clubs in general.

6. References

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