ERASMUS SCHOOL OF ECONOMICS

Professional Sports Governance

An empirical study of CEO structure and board composition in UK football

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Abstract

We examine the issue of corporate governance and its effects on the financial and on-the-field performance of UK football clubs, by analyzing a sample of 29 UK clubs over the period 2008-2014. Fixed effects regression panel data techniques are performed to assess the impact of specific corporate governance characteristics on the value and profitability of football clubs. The results indicate that a duality CEO structure is consistently correlated negatively with club value and revenue generation finding evidence related to agency theory. We also find evidence that board background homogeneity is correlated with higher financial performance. Previous literature provides arguments both in favor and against background homogeneity although it seems that in football a homogeneous board is able to cope with challenges easier. The results documented in this study could be of use for governing bodies of football which are the principals that organize the sport and set the governance rules around it.

1. Introduction

The global sports industry in 2010 delivered revenues up to $121.3 billion through gate revenues, merchandising, media rights and sponsorship deals and it was expected to rise to $145.3 billion by 2015 (PwC: Changing the Game, December 2011). The fact that revenues in sports can come from a variety of cross-categorical activities (wholesale business, licensing, broadcasting rights, gate revenues, sponsorships, etc.), other than the sporting performance of the club, creates opportunities for different business sectors to invest in this industry and consecutively depend on the welfare of it. We have seen examples of a huge variety of companies and organizations getting involved in football clubs; from insurance and investment firms, to footwear manufacturing companies and betting agencies. Manchester United signed a sponsorship deal, of £56.5m in 2006, with an American multinational insurance corporation called AIG which was consequently replaced in 2010 by a four year deal with AON, a British multinational corporation.; Samsung has been the sponsor of Chelsea football club since 2005, the deal ended after ten years in June 2015; Emirates, the largest airline in the Middle East, first signed its sponsorship agreement with Arsenal in 2004, providing the airline with naming rights to the stadium until 2021 and a shirt sponsorship that began in the season 2006/07; in 2009/10, 188BET took over from Reebok as the principal sponsor of Bolton Wanderers while they were also the main sponsor of England's rugby union premiership team, Newcastle Falcons. Football clubs are key elements of economic boost in countries and on a local level. The Premier League also contributes to the economy through the development of cities as well as through its impact on international trade flows, inward investment and in assisting the development of the international perception of the UK (Economic Impact Assessment of the Premier League, 2015). With respect to the UK, football is of considerable social, economic and cultural importance. The Premier League's success and popularity allows continued investment in the game centrally and by clubs, creating a significant broader economic impact. The Ernst & Young (EY) report Economic Impact Assessment of the Premier League documented that the League and its 20 member clubs generated a total tax contribution of £2.4bn to the UK Exchequer in the 2013/14 season. The assessment also reported that the League and clubs supported over 100,000 jobs as well as making a contribution of £3.4 billion to UK GDP. Further insight into the world of sports is of great importance, given that sports remain a clear indicator of economic development up to this day (Baade & Matheson, 2011). In contrast to its significance, the football industry is characterized by low scrutiny standards which boost financial and organizational malpractices. It is of great interest to try and determine how differences in governance standards affect the football clubs' performance. The 'peculiar' in sports, as mentioned by Neale (1964), is that the governance body of the company has to keep the balance between financial sustainability and "on-the-field" success. The governance body has to meet the

investors' and the shareholders' requirements while ensuring the fans' support through on-the-pitch performance. Ensuring on-the-field performance requires investment in players and infrastructure; Mitchie & Oughton (2005) argue that this might partially be the reason why most football clubs in England are not profitable since there might be incentives to invest any putative profits before they appear in the balance sheet. Additionally, they conclude that the board's need to seek playing success, sometimes at the expense of outside shareholders and lenders, is what gives initiative for the improvement of corporate governance as means of protection for the outside providers of finance in football. Finally, another challenge that the governing bodies of clubs are facing is the increased pressure to leverage their assets in international competitions and environments while retaining their domestic fan base and support. On the other hand, with respect to lower reputation leagues, for example Asia, the increasing trend of globalization has the incumbent danger of obsession with overseas high quality football leagues. This may consequently lead to the sidelining of local clubs and the game as a whole.

The aforementioned facts highlight the importance of the implementation of high quality corporate governance standards in the football industry. Given the low scrutiny standards of the industry and the history of governance mismanagement in football, better governance can help clubs be more stable financially but also assist in quality decision-making. Mitchie & Oughton (2005), argue the implementation of a 'best practice code' among football clubs that would help them improve their corporate structures and procedures, bringing significant benefits to clubs and stakeholder groups. Such development of a corporate governance code in English football would place British clubs at the forefront of quality governance, setting the example for other countries. Despite the improvement in some areas over the last decade, the standards of corporate governance in the football industry are below those of listed companies in general and further research is of relevant importance.

Our study focuses on the organizational structure of the football clubs' board of directors in terms of CEO structure and several other compositional characteristics such as board size, board diversity and board tenure. We attempt to identify the potential forces that these attributes can impose on the club's financial performance and on its sporting success. The CEO structures as well as the composition of the board of directors are some determinants of corporate governance which we will use to explain differences in valuation, profitability and success of the UK football clubs by analyzing a sample of 29 clubs that have participated at least once in the UK's top division, the Premier League.

2. Theoretical Framework

2.1 Corporate Governance

The term "governance" has its origins from the Greek word "kybernao" (κυβερνάω – κυβερνώ) which later evolved in the Latin word "gubernare" and it means to guide, steer or govern. Corporate Governance has been the main point of research in several studies in the past and different academics have described it in numerous ways. The emergence of corporate governance as a research subject within business and academic literature came to its peak during the 80's and 90's. According to Blair (1995), the main reasons were the increasing, at the time, competitiveness between companies in Japan and Germany, the inflation of compensation packages to managers and executives and the dissolution of the Soviet Union and socialist economies in Eastern Europe. Shleifer & Vishny (1997), support the view that corporate governance is the means for the suppliers of finance to ensure that the management will use the funds to maximize the shareholders residual value. On the other hand, Daily et al. (2003) introduce governance as the definition of the broad uses under which resources are utilized and furthermore, the ruling of conflicts of interest between participants in an organization. One key problem that corporate governance addresses is the separation between ownership and control. The corporate executives, who are considered to be in control of the organization, have incentives to abuse their power for personal benefits. One of these incentives, among others, can be the managers' attempt to leverage their influence or power in the organization. Managers can materialize this attempt by focusing on expanding their business units or increasing the value of assets under their control instead of trying to maximize the shareholders' value. The issue of managers trying to acquire greater control by optimally allocating resources is widely known as "Empire building" and it is considered a setback for companies. Another risk that the ownership of the organization is facing is managerial expropriation. Addressed by Claessens, Djankov, Fan and Lang, (2000), expropriation is a general term which describes the process of using one's control powers to maximize their own welfare and redistribute wealth from others. Expropriation can take several forms such as, simply stealing the profits or even selling the output or assets from the firm they control to the company they own, in below market prices. Finally, managerial entrenchment is also a problem throughout organizations. Managers often, instate themselves in the organization by becoming irreplaceable in a way that the company would lose in their absence. This phenomenon occurs commonly in family owned firms, which is a usual case among football clubs, where executives serve long tenures and they can develop friendships with shareholders. There is a wide variety of theories in corporate governance. According to Abdullah & Valentine (2009), governance theories started with agency theory and then expanded into stewardship theory and stakeholder theory. Despite the high volume of the explanatory scenarios regarding corporate governance, the aforementioned three remain up to this day,

the principal theories of corporate governance. Agency theory is based on the assumption that corporations are run by managers on behalf of owners and that they attempt to benefit themselves rather than the owners. Jensen & Meckling (1976), described agency theory as the interpretation of how public corporations function, given the assumption that managers are self-centered and do not benefit fully from the wealth effects of their decisions. Companies try to mitigate this problem by applying a strategy of aligning the shareholders and managers' goals. For example, compensating managers with stock options is a very common practice in the U.S. to ensure that managers are interested in the long-term welfare of the company, since they will also enjoy higher returns. Key corporate governance controls are also organizational features of the board of directors such as the size of the board, nationality diversity, sex diversity, CEO duality or proportion of outside directors, which can affect the potentiality of managers to take advantage of their power. In general, in agency theory the employee is pictured as individualistic. In contrast, Stewardship theory considers managers as trustworthy individuals that try to maximize shareholder value (Donaldson and Davis, 1991). A basic assumption based on Davis et al. (1997), is that governance is linked to inside directors that strive to benefit shareholders, utilizing their inside knowledge of the business to take superior decisions. Another stewardship supporting view, Daly et al. (2003) implies that executives are concerned with maximizing financial performance in order to preserve their reputations. Finally, another maxim of the stewardship theory is that the CEO should be assuming the role of the chairman as well, in order to minimize agency costs. The third principal theory of corporate governance, the Stakeholder theory, departs from the previously discussed concepts in the way that it considers as primary goal of the corporation the maximization of stakeholders' interests. Jones (1995) suggests that through a mix of ethics and economics firms can stipulate mutual trust and cooperation between managers and stakeholders, which will acquire the firm a substantial competitive advantage.

2.2 The Sports Industry

Corporate Governance theories focus on matters of governance at the firm level. It is notable to mention that the sports industry has some important differences from other traditional industries, in a way that different approaches are needed to approach matters of governance. As a product, professional sports require at least two entities to exist. That means that at least two different firms would need to cooperate to create the game. Club customers are characterized by the loyalty that they lay to their club. Several families have been supporting the same club over generations while changing support is infrequent. Despite the fact that the social culture of football is stable, several changes have occurred in the recent years. Most of these changes are due to the increasing commercialization and globalization trend. According to Deloitte (2006), the combined revenue for the world's five largest football nations (UK, France, Germany, Spain, and Italy) increased from €1.94 billion in the season 1994-1995 to €6.27 billion

by the season 2004-2005 and the UK leads this phenomenon. The total revenue for the 20 Premier League clubs increased from £170 million in the season 1991-1992 to £1.33 billion the season 2003-2004 and grew faster than real GDP (Deloitte, 2005). Business nowadays is a main priority for sports. The financial stability of sports teams is dependent on the success of other sports teams in a sense that they need to compete both financially and on-the-field to create revenue. No team would generate revenue if there was no other team to play with. Smith & Le Jeune (1998), explain the reasons why sports and specifically football, are different from most businesses by benefiting by a strong competition; they argue that football cannot be treated purely as a business. A football club represents considerably more emotional terms to their supporters (customers) than the average business. Additionally, an efficient company will always attempt to maximize its market share, and in an ideal world will want to become a monopoly supplier of whatever it produces no matter how difficult this may be in practice. Football as an industry cannot operate in those terms as at is natural for every club to want to be more successful, but creating a total monopoly of trophies would lead to the deterioration of spectator interest. Finally they support that in football the attraction of success must be balanced by the risk of failure.

Previous research argues that competitive imbalance reduces the level of uncertainty of outcome and consequently reduces the level of consumer demand and thereby the revenue gained by clubs or investment in sport (Rottenberg, 1956; Neale, 1964; Vrooman, 1995). Knowles et al. (1992) mentioned that the uncertainty of outcome hypothesis "is predicated on the assumption that fans receive more utility from observing contests with an unpredictable outcome, and posits that the more evenly team playing abilities are matched, the less certain the game's outcome and the greater the game's attendance will be" (p. 72). The uncertainty of outcome hypothesis has been the point of interest for many studies in the past while the results are ambiguous. Some studies show support for this theory, such as Szymanski (2003); Peel & Thomas (1997); Schmidt & Berri (2001), while others have shown their reluctance in supporting this conclusion (Baimbridge et al., 1996; Whitney, 1988). What is certain regarding the sports industry is that competition is a vital component of revenue generation. Another component of sports, that distinguishes it from other industries, is the need for a league structure. There are hardly any other industries with structures of governing bodies that are tasked with bringing together several firms to compete. With respect to Noll (2003), there are five main decisions to be made when a league is formed; the method of determining the champion; the relation between top and lesser leagues; conditions of entering and exiting a league; and the enforcement of the league's rules. The fact that sports teams have to deal with issues both of internal and league governance, leads us to conclude that the matter of governance has a double dimension when it comes to sports. Through relevant literature and research, we present the three dominating approaches with regards to sports leagues. The first and oldest, described by

Neale (1964), supports the argument that a sporting league is a natural monopoly, in a sense that the league is the monopoly firm and the sports teams are simply multi-plant divisions of the monopoly firm. On the other hand, Sloane (1971) departs from Neale's view arguing that a sporting team is not a firm itself. Sloane argued that sports leagues could alternatively be viewed as cartels since they express quite a wide variety of cartel features such as determining the size of the league (number of producers), the allotment of players (resources), pricing policies and rules regarding the benefits from TV fees or sponsorships. This second approach provides another reason to consider the sports industry as different. The third and last approach came by (Flynn & Gilbert, 2001) who debate that professional leagues can be viewed as joint ventures. The sports teams that participate in the league have independent owners and management while they create the league as a joint venture to coordinate the league activities and ideally provide the joint product. The common denominator for these three essential approaches is that the clubs must actively compete to produce the product but also to survive economically. With respect to the objectives of the owners and the management of the clubs, agency and stewardship theory both consider the maximization of shareholder value the ultimate goal while stakeholder theory supports the view that the firm should maximize the balanced claims of all the stakeholders. Sloane (1971) annotates that clubs are less profit oriented than other commercial companies because a very important component of their utility function is maximizing sporting performance. All the aforementioned facts are evidence that the sports industry is different and alternative approaches along with further research is needed to determine the powers that governance can impose on the firms.

2.3 Professional Football Governance

In this section of our research, we will try to focus on football governance, especially in the UK, and highlight some important features that characterize this particular sport on a professional level. The Premier league in the UK, as well as several other subordinate leagues, is organized by the Football Association (FA). The FA is both a member of the International Federation of Football Associations (FIFA) and a member of the Union of European Football Associations (UEFA). These federations are responsible for organizing world-level competitions like the World Cup, in the case of FIFA, and the European Championship for National Federations (Euro) or the European Champions League for clubs that qualify through their domestic leagues, in the case of UEFA. Football in the UK is based on a relegation / promotion principle where firms are able to move from the bottom of the ladder to the upper levels of the hierarchy. The depth of leagues in the UK is of considerable size with about ten levels of hierarchy from the highest to the lowest division. The English system is one of the oldest and most established and this is why we select UK to perform our research and derive conclusions about the

dynamics that typify governance in football. In the table below, Table 1, we present a summary of the most important events in the history of the English professional system.

1885	Professionalism legalised.
1888	Football league founded.
1898	Promotion and relegation introduced.
1945	Introduction of Divisions 3 North and South.
1961	Maximum wage removed.
1965	"Match of the Day" Programme introduced on BBC television.
	Contract worth £5,000 with £50 distributed to each club.
1981	Full time directors permitted in clubs.
1983	Tottenham circumvent Rule 34 and float the club on the stock market.
1983	A threatened breakaway by major clubs leads to a reduction in gate levy to 3% and to home clubs retaining the full income from ticket sales.
1985	The big 5 clubs (Man Utd, Liverpool, Everton, Spurs, Arsenal) threaten a break away unless they receive more of the income from television contracts.
1988	The major clubs negotiate a deal with ITV.
1990	Football league proposes merger with FA to counter power of clubs, FA responds by publishing the "Blueprint for Football" document supporting the establishment of a Premier League.
1992	Premier League begins - £304 million deal with BskyB and BBC.
1995	Bosman decision taken by European Court of Justice.
1997	Football Task Force established.
1997	BskyB contract £670 million.
1999	The reorganization of the European Cup competition.
2000	Total television and internet package £2.4 billion. (including £315 million from Ondigital/ITV contract).
2002	EU and FIFA agree amendments to the transfer system.

Table 1: Important Events in the history of English Professional football (Amara et al., 2005)

By the First World War all professional clubs in England were limited liability companies. At first, the limited liability model became really acceptable because it protected the various owners from the risk of unmanageable debt. Consequently, this created incentives to choose between sporting and financial objectives. In 1896, the FA established the “Rule 34” which restricted the dividend payments to owners and removed the directors’ compensation until 1981. Rule 34 was about to be overpassed by the introduction of holding companies which led football clubs to be owned by companies instead of individuals. From the flow of events, we can see that football experienced some essential changes in the 80’s. With full-time directors appearing in 1981, Tottenham Hotspur becoming the first English club to float on the LSE in 1983, we can argue that governance started to evolve as those who promoted non-

profit management struggled with those who supported professionalism and business orientation. Tottenham's example was followed by another 15 major clubs. In 1990, the Football League proposed to merge with the FA, in an attempt to control the monopoly development of the major clubs, resulting in the FA's break-away and the establishment of the Premier League. Szymanski & Hall (2003) support that in a set of 16 FA clubs that went public since 1995 there was no difference in their financial performance. These results however weaken the view that going public changes the objectives of the club and as mentioned in Farquhar, Machold & Ahmed (2005) this finding is either consistent with the argument that football clubs are still utility maximizers after going public or the argument that clubs have always been profit maximizers. Fama & Jensen (1983) propose that a market for corporate control, an internal labour market and a market for directors, will bond their agents to their principals if they operate efficiently and they argue that there is a lack of corporate control in football. This lack of corporate control is the main driver of financial problems in the industry according to McMaster (1997). McMaster also argues that the agency problem in football appears because there is no separation between ownership and control since many clubs are owned by few directors who usually control the issuing of shares and thus preventing a free market for the existing number of shares. There are three traditional governance structures in which a team can operate under: privately owned firm, public football corporation, and a non-profit firm (member association). The form of governance a team exercises is very significant as it determines who has the residual control and residual claim of the club. In clubs governed as a members' association in England the officers of the clubs are in charge of the conduct of business and financial transactions while at the same time they are liable to debt and liabilities. This was the main reason for shifting into private limited liability firms. The key features of a privately owned clubs are that the residual benefits of control and claims are concentrated on the same individual, the owner. The decisions of the owner don't have solely financial consequences as if there is high volume of bad decision-making then there is a high potential that the owner is exposed to debate. Owners have to consider the support or criticism of the fans. In a public corporation, stockholders have rights; they can elect directors and they can vote on the strategy of the firm. Stockholders in comparison to private owners hold a small share and are anonymous. Additionally, they receive dividends and in case of liquidation they appropriate the remaining profit after payment of debt and taxes (Milgrom & Roberts, 1992). Tottenham's flotation on the stock exchange which was followed by another 18 football clubs from 1994 to 1997 was represented as a more democratic style of ownership (Rabinovitch, 2007). It was not long before investors realized that earning points and gaining an attractive listing in the leagues table was of higher importance than a profitable balance sheet. Because of this reason, around 60% of the clubs' turnover where dedicated in acquiring and retaining of players. According to Haverson (1998), when this became obvious, football club shares

went into a decline. In addition, Rabinovitch (2007) mentioned that the financial transparency required by stock exchange regulations were strict for the "fast moving and shadowy transfer market".

Quality governance depends on the adequate provision of information from the board of directors to the shareholders in terms of information about the ownership, the constitution and the objectives of the club as well as information on the running of the club with regards to board composition, financial performance, assets, liabilities and strategy (Mitchie & Oughton, 2005). Additionally, another important factor that we should take into account is that companies listed on the London Stock Exchange (LSE) are required, under the listing rules established by the Combined Code (CC) of Company Law, to publish a statement of compliance. This is not a requirement of the listing rules of AIM and OFFEX where CC is more considered as best practice; by 2005, 50% of the public UK football clubs were listed on the AIM and OFFEX. The Combined Code also requires a separation of powers between the CEO and the chairman of the board. Only 69% complied with the practices of the code which was below the levels of all companies (90%). We believe that the separation of the role of the CEO and the chairman of the board can be an important attribute that can influence financial stability and effective conduct of business. Furthermore, the CC requires that no less than one third of the board's size should be non-executive directors and a majority of non-executive directors should be independent. Within the board of directors in football clubs, there are three main additional bodies; the nomination committee which makes recommendations on the appointment of new directors; the remuneration committee comprised wholly by independent non-executive directors; and the audit committee which should consist of at least three non-executive directors and a majority of independent directors (Mitchie & Oughton, 2005). Given the above, and with regards to the fact that the levels of compliance with the three suggested committees were 25%, 25% and 31% respectively, leads us to focus on the composition of the board in terms of size, board tenure and board diversity to determine their influence on the club's overall performance.

2.4 Foreign Ownership

The success of the Premier League attracts thousands of football fans and club supporters in the stadiums and million others to tune in televisions and broadcast means. This consequently increased the demand for football in various levels. The newly high investment requirements became more restrictive for domestic investors while they definitely attracted private foreign investors. Fulham F.C. became the first club to run under foreign ownership, with Egyptian businessman Mohamed Al Fayed investing £30m to get the chairmanship of the club and most notably, in 2005 U.S. businessman Malcolm Glazer increased his stake in Manchester United to 75% and thus gaining full control over the club with a deal of £790m (Reuters, 2008). Several other clubs were taken over by foreign investors; the takeover of Aston Villa in

2006 by the American billionaire Randy Lerner for £62.5m; the sale of Liverpool F.C. in 2007 to U.S. sports businessmen George Gillett and Tom Hicks for £174m; the sale of Manchester City in 2007 to former Thailand Prime Minister Thaksin Shinawatra for £81m and the subsequent 2008 sale of the club to Abu Dhabi United Group for Development & Investment for £200m. Major theories regarding foreign investors, started to make their appearance as the new ownership model's effects were ambiguous for different clubs. Roman Abramovich's purchase of Chelsea F.C.'s holding company in 2003 for £60m, has led the club to a multi-trophy winning team while on the other hand the biggest trouble was for Portsmouth F.C. in 2008 when Alexandre Gaydamak announced that he was not able to further fund the club. Until February 2010 the clubs ownership changed several hands only to become the first Premier League club to go into liquidation. Jones (2003) argues that there is a fear that wealthy new owners may not realize the importance of these clubs to the local communities and to perceive them as 'vehicles for personal ambition'. Foreign investment is a key driver of the premier League's globalization. Hutton (2008), taking a more optimistic view claims that 'a Premier League without foreign players or a British economy without foreign investment would be miserable affairs while many overseas companies have made a considerable contribution to the country'.

2.5 Board of Directors

In our research we incorporate several characteristics of the board of directors to identify their effect on the club's financial performance measured as the club's estimated value and the club's net income. Below we describe the characteristics of the board of directors that we will consider as attributes of corporate governance:

CEO Duality

CEO duality refers to a board leadership structure in which the Chief Executive Officer (CEO) is also the Chairman of the Board. The arguments against dual leadership, or in favor of separate leadership, are largely based on the agency theory as CEOs of modern corporations have decision rights but not control rights over shareholder capital; as a result, CEOs have conflicting interests and do not always act to maximize shareholder value (Yang, 2014). There is a strand of studies from 1999 to 2003 which document that many businesses altered their existing structure from a duality to a non-duality structure (Chen, Lin & Yi, 2008). These authors considered that, in many businesses with a duality structure, there had been an abuse of power at the expense of the company and the shareholders, commonly referred to as "captured boards" theory. On the one hand, a dual role of the CEO may enhance the firm's value, as the CEO has thorough knowledge of the strategies and the operations of the firm (Donaldson & Davis, 1991; Davis et al., 1997). On the other hand, when a CEO is also the chairman on the board, this could make CEO entrenchment more possible (Shleifer and Vishny, 1989; Mande et al., 2012) and consequently

bestow a deterioration on board effectiveness. Regarding managerial actions, the CEO can influence the board's agenda and decisions, leading to higher agency problems between managers and shareholders (Abbott et al., 2004; Imhoff, 2003).

H.1: There is a negative relation between CEO duality and the club's value.

Other studies describe the responsibilities that the board of directors allocates to the CEO and the executive officers who manage daily affairs of the firm. Some responsibilities of the CEO can be supervising the firm's operations with effective ethical manners and preparing the strategic plans, annual business plans, and budgets for the board's approval. The CEO is also responsible for the firm's financial reporting by following relevant statutory laws. In addition, the CEO can be responsible for the quality of internal controls, to guarantee that the firm's accounts and records are consistent, and applicable laws are complied with (Kajola, 2008). This leads us to conclude that the CEO is a major qualitative determinant of the firm's profitability. In addition, Fosberg and Nelson (1997) found that the firm with separated roles between the CEO and the chairman yield a significant development in firm performance. In a study involving 348 Australia public listed firms, Kiel and Nicholson (2003) reported a negative relationship between CEO duality and Tobin's Q after controlling for firm size. In addition to our first proposition, the literature gives us the incentive to form the following hypothesis about CEO duality and its relation to the end-year net income of the clubs as an alternative measure of financial performance other than the club's value.

H.2: There is a negative relation between CEO duality and the club's net income.

Board Diversity

The board of directors puts together a combination of skills and characteristics which provides the organization with a pool of unique individuals and social capital that the firm relies on for critical issues of governance and decision making. The social capital provided by directors is a measure of the value that the board contributes by executing its governance duties (Carpenter & Westphal, 2001). Several studies have discussed about the levels of diversity within a group like the board of directors. Westphal and Milton (2000) describe that the boards of directors have been seen from outsiders like homogenous groups of elite members with common educational backgrounds. In corporate governance, board diversity is perceived as variations between individual directors in terms of gender, age, nationality, professional background, education, independence and several other characteristics (Milliken & Martins, 1996). With respect on the homogeneity of the professional background of directors involved in football, our sample indicates that in the Premier League the majority of the football clubs' boards consist mostly of directors that have similar professional experience. Despite the growing interest around the matter of diversity in

the board room, there has only been slow progress towards accepting that diverse boards can enforce their duties better than less diverse boards. As far as educational and professional background is concerned, with respect to social similarity versus diversity, some studies argue that a homogeneous group of directors can collaborate and execute their governance duties more efficiently than they might if the director group was more diverse (Burke, 2000). On the other hand, some studies document that boards with low levels of similar background homogeneity perform better. In management terms, diversity can enhance the way the board operates in terms of diverse background and skills thus dealing with difficult policies, implementation plans and negotiations (Burton, 1991). For football clubs in the Premier League where the boards of directors are often challenged with issues that vary from financial stability matters to player acquisition decisions there is a need for effective administration and strong enforcement of board duties. Given the aforementioned arguments we arrive in our hypothesis H.3:

H.3: There is a positive relation between the levels of background homogeneity in terms of professional background in the board of directors and the club's net income.

Board Tenure

The issue of tenure is one dimension of board diversity. There seems to be a positive relationship between director tenure and firm performance. The question is whether this relationship is linear or U-shaped. McIntyre et al., (2007) & Chamberlain, (2010) advise that inside directors should have a long stay on the board, while outside directors should serve for shorter periods. According to Huang (2013), board tenure is an ideal measure to capture the trade-off between knowledge accumulation and independence. Increased familiarity between the board and management can undermine independence thus decreasing firm value (Fracassi & Tate, 2001). The goal is to maintain both board experience and organizational memory while making sure that the board is cognitively diverse.

H.4: Tenure exhibits a positive relation with the club's net income.

Board Size

With regards to the size of the board and a firm's performance, there are two main theories. The first argues that a smaller board size improves firm performance, in lieu of longer decision-making (Lipton & Lorsch, 1992; Yermack, 1996). The second suggests that a large board size will improve a firm's performance (Klein, 1998; Coles, 2008) by effectively supporting and advising management in a complex business environment (Klein, 1998). Some of the disadvantages of large boards are the larger coordination costs and free rider problems. Firstly, coordination and communication problems make their appearance because it is more difficult to arrange board meetings and hear all points of view, thus leading to slower and less-efficient decision-making (Jensen 1993). Lipton and Lorsch (1992) suggest that as

board size increases beyond a certain point, these inefficiencies outweigh the initial advantages from having more directors to draw on, leading to a lower level of corporate performance. The advantage of a larger board size is the greater collective information possessed by the board which is also valuable for the monitoring function (Lehn et al., 2004). In the case of sport organizations, the issue of board structure has been extensively addressed during the past decade (Esteve et al., 2011). Ferkins (2009) argues that the board structure remains a significant determinant of a sport organization's strategy, while Heinemann & Puig (1996) provide evidence that larger boards include a wider range of professionals with different knowledge experience and connections with the local community, which can benefit the sport clubs by raising financial resources from various stakeholders.

H.5: There is a positive relation between board size and the club's net income.

In addition to these main characteristics, we also consider other variables that may contribute to our research in terms of board composition to control for their influence on the club's value, net income and sporting success. For example, diversity of nationality in the board may escalate the probability of cross-cultural communication problem (Lehman & Dufrene, 2008) and interpersonal conflicts. However, it may also bring competitive advantages to the firm such as international networks, devotion to shareholder rights and managerial entrenchment dodging (Oxelheim & Randoy, 2003). We choose to include diversity of nationality in our research as it might be a factor that can influence one of our main explanatory variables, background homogeneity in a sense that a board that consists of people from different cultural backgrounds is more likely to have less professional and educational homogeneity. Age diversity is another component of the board which we will control for in our study. Hambrick & Mason (1984), show that youthful managers are more prone in undertaking risk, and firms with young managers experience higher growth than the ones with older managers. Usually older managers are more risk averse (Barker & Mueller 2002), while younger people tend to be more flexible and are mostly better educated. Therefore, age diversity could affect firm performance because it impacts creativity and the problem solving capability of a team (Li, Shu, Lam & Liao, 2011). Additionally, age is included in our study because along with tenure are natural dependent elements, time-related variables which co-vary with one another (Bedeian, Ferris & Kacmar, 1992). It is plausible to argue that when looking into the effects of tenure one should take into account age as higher average age might also allow the average age of the board to be higher. Furthermore, employing football experienced directors may be sought by a board, or even by a manager, in order to provide advice or technical assistance on technical or other matters that are perceived as lacking or desired by the club. A very representative example is the former serve of Bobby Charlton on the board of Manchester United. A description of the role of a football experienced board member has been given by Dave Basset, an English football manager and former player, who supports that a football

experienced director, can be a buffer to the club's performance. In many cases, these directors assume the role of director of football, who is answerable to the board and at the same time is there to help the board members that do not have this experience. Another variable which is of considerable interest is the participation of female directors. Gender diversity is widely discussed in previous studies. Carter et al. (2003) documents a positive statistically significant relationship between the presence of women in the boards and Tobin's Q, in a sample of Fortune 1,000 companies. On the other hand Rose (2007) failed to identify a relationship between board diversity and Tobin's Q for Danish listed companies. In Chapter B, we discuss and present our research methodology and we describe the variables that will participate in our study.

3. Data & Methodology

3.1 Financial and On-the-Field Performance Data

The research sample consists of 29 UK football clubs that have participated in the Barclay's Premier League, at least once, on a regular season basis, dating from the season 2007-2008 to 2013-2014 and summing up to 203 firm-year observations. All football clubs in the sample have the legal form of the limited liabilities or public companies where their capital and assets are divided in shares held by the owners. All football clubs with these legal forms are required to publish financial statements and annual reports, audited by chartered accountants, which include information on the governance structure of the club. The main criteria that a club has to meet in order to qualify in the sample is to have full financial and governance data, mainly board and ownership structure, in the years that it participated in the Premier League or the Football League and to have closed their fiscal year in June. The research sample is restricted only to clubs participating in the first two elite divisions of the UK for all years under investigation. The reason for this choice is that this filter can mitigate any misleading results arising from the relegation of football clubs to lower reputation divisions and because clubs in the Premier League and the Football League attract greater publicity, have increased chances for external financing and their financial statements provide greater reliability, as they are permanently audited by certified chartered accountants. Financial data regarding turnover, net income, net current assets, total debt, intangible assets and return on assets were retrieved for 29 UK football clubs through online databases (Orbis, Bureau Van Dijk, and The Guardian). As measures of financial performance we consider two football club measurements; the club's estimated value, by using a multivariate model introduced by Markham (2013) which includes various important parameters for football clubs such as revenue, assets and stadium utilization; the end-year net income as reported by U.K. clubs at the end of their fiscal year in June. We measure on-the-field performance based on wins and points earned in a full regular season, excluding

playoff and domestic cup games. Individual club data have been obtained from the annual Football Association release of the Premier League Handbook where information about points, wins, trophies, stadium capacity and attendance levels is available. In Table 2 below, we provide the summary statistics that result from our research regarding club financial data for the seasons 2007/08 to 2013/2014, followed by a description of the variables.

Financials and sporting success

Variable (In USD)	*Abbreviation*	*N*	*Mean*	*Std. Deviation*	*Min*	*Max*
Points Earned	PE	203	59	19	11	103
Wins	WINS	203	16	6	1	31
Turnover	TUR	203	134M	121M	9M	583M
Net Income	NI	203	-13M	43M	-321M	119M
Multivariate Valuation	MV	203	151M	292M	-272M	2590M
Total Debt	LEV	203	100M	204M	14K	1335M
Intangible Assets	INTASS	203	66M	84M	15K	385M
Valid N (listwise)		203				

Table 2: Represents the descriptive statistics of the financial information that is included in our research

For club value we consider the multivariate valuation model (MV) as used by Markham (2003). We construct the model for each club-year observation in the following way:

$$\text{Club Value} = (\text{Revenue} + \text{Net Assets}) * \frac{(\text{Net Profit} + \text{Revenue})}{\text{Revenue}} * \frac{\text{Stadium Utilization\%}}{\text{Wage Ratio\%}}$$

According to Markham, revenue generation includes all the cash generated by the club in a financial year. It is of key importance within the football industry and an underpinning factor of UEFA and the EPL's financial controls. A club's revenue figure is added to its net assets as these exemplify a club's ability to generate future revenue and consequently establish the base of the valuation model. The net assets number includes the fixed assets added to current assets less current and long term liabilities, derived from its financial statements. This figure considers the club's short and long term obligations. The combined revenue and net assets figure is multiplied by the club's net profit (or loss) figure added to revenue and divided by revenue. This measures a club's profitability with regards to its overall revenue. In the case of profitable clubs, the combined revenue and assets will be multiplied by a figure greater than 1 to boost the valuation in line with profits whereas in loss making clubs it will be multiplied by a figure less than 1 to reduce the valuation in line with losses. The overall figure is then multiplied by the average stadium utilization percentage which illustrates how well the club is using its main differentiating asset, the stadium. Finally, the overall figure is divided by a club's wages to turnover ratio which illustrates the

club's ability to control its main expenditure. The lower the percentage the higher the valuation is. In Table 3 below, we can see the trend of the total valuation per season.

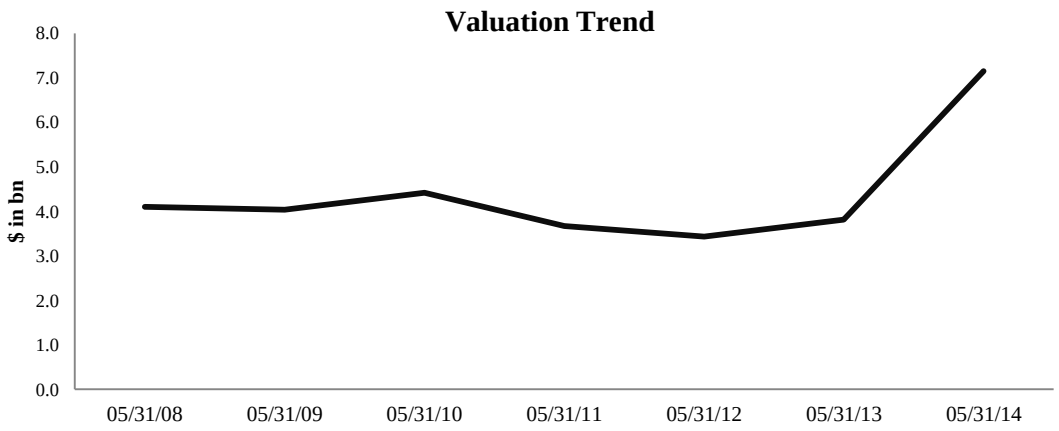

Table 3: Represents the trend of the total multivariate valuation for all clubs that had participated at least once in the Premier League from the season 2007/08 to 2013/14

Our measure of on-the-field performance is determined by the sum of wins that were collected by a club during a football season. The variable that captures the wins achieved by a club is denoted as WIN. We choose to use the total wins achieved by a club as it captures the overall performance and effectiveness of the club on the ground from the performance of the team throughout the season. The variable NI represents the end season net income for any given club in a given season, as reported in the clubs' financial statements at the end of each fiscal year. Even though net income is not a clear indicator of financial performance when it comes to football clubs, it can be used to determine how much profit the club can generate using its core operations. Further on, TUR is the variable that corresponds to the turnover that a club generates during the season. LEV refers to the levels of debt that each club bears, measured as the total of long-term debt and other non-current liabilities and finally INTASS denotes the end year value for the company's intangible assets. We consider intangible assets of key importance to clubs, since the amortization of the players' contracts is included there. As clubs spend more and more money on player transfers, player registrations (considered intangible assets) now represent a significant proportion of the total assets of major European football clubs. Players under contract with a club, home-grown or acquired, are expected to generate future economic benefits for the club as they are bound to the club for a certain period of time (Morrow, 1997). We expect that including intangible assets in our model will help mitigate the differences between clubs in terms of squad "quality".

3.2 Governance Data

Annual data regarding ownership and legal form were retrieved through the online database Bureau van Dijk and data about the board of directors were found in the annual release of the Football Association, the Premier League Handbook. Finally, data regarding directors' profile information like nationality, age, tenure, etc. were gathered manually from online corporate databases (Endole, Companies in the UK). We form a sample of annual data regarding type of CEO duality, board size and several boards of director's characteristics such as, average age and average tenure, percentage of non-native directors, proportion of female directors, proportion of directors with a similar professional background and proportion of directors with football experience. Full information on these data is available for the whole research length over the seven football seasons in our research. In Table 4 below, we can see the descriptive statistics for our set of data regarding the board of directors, followed by a description of the variables.

Board of Directors

Variable	*Abbreviation*	*N*	*Mean*	*Std. Deviation*	*Min*	*Max*
Board Size	BS	203	5,7	2,1	2,0	13,0
Average Age	AVAGE	203	54,1	7,0	35,5	69,8
Average Tenure	AVTEN	203	7,0	4,5	1,0	21,3
% of non-native directors	NONUK	203	26,0%	24,1%	0,0%	80,0%
% of female directors	FEMALE	203	4,2%	8,8%	0,0%	50,0%
% of directors with a professional football career	EXPLAYER	203	3,9%	8,6%	0,0%	33,3%
% of directors with common professional background	BACKHOM	203	64,1%	19,5%	25,0%	100,0%
Valid N (listwise)		203				

Table 4: Represents the descriptive statistics of the characteristics of the board of directors that are included in our research

The variable board size (BS) denotes the count of directors that served on the board of each given club for the given season. Average tenure (AVTEN) is calculated by dividing the sum of all the directors' tenures by the number of directors in a club. We calculate average age (AVAGE) by taking the mean of the club's

directors' age. The variables NONUK and FEMALE denote how many members of the board of directors are not UK natives and how many are female directors, respectively. Next, EXPLAYER is a variable that captures the proportion of directors that had a professional football career before their football club directorship and the BACKHOM variable is a calculation of the proportion of the directors within a club that share common academic or professional background.

3.3 Research Design

To determine the potential effect of our governance related explanatory variables on the clubs' financial and on-the-field performance, a series of Panel Least Squares (PLS) regressions are performed. Panel data analysis is a statistical method, widely used in social science, epidemiology, and econometrics, which deals with two and n-dimensional (within and between the cross-sectional/times series) panel data (Maddala, 2001). Our sample consists of longitudinal data which means that various individuals are observed in several points in time. For this reason we choose to analyze our data using the fixed effects regression method to account in unobserved variance between each football club but also for each season. We do not include pooled regression models in our analysis as we believe there would be a notable amount of unobserved variance since football clubs tend to be so different between them in terms such as history, fan base, financial administration and squad quality. The pooled regression method considers each observation as unique individual dimension, without taking into account the fact that some observations belong to the same individual. PLS is based on minimizing the residual sum of squares and value of zero indicates perfect fit (Dougherty, 2007). Multiple regression analysis is applied as both the valuation of the club and its sporting performance is deemed to depend on more than one variable. The result of a PLS regression is a set of correlation coefficients, which quantify the effect and the significance of each explanatory variable on the dependent variable. Correlation coefficients show whether the effect is positive or negative, as well as the magnitude of the effect on the dependent variables. In addition, for each dataset the goodness of fit, R-squared, is considered.

To test the first research hypothesis, we use the multivariate valuation model (MV) as a dependent variable in the following fixed effects panel regression model:

$$\text{(Model 1): } MV_{i,t} = a_0 + \beta_1 CEOD_{i,t} + \beta_2 EPL_{i,t} + \beta_3 BS_{i,t} + \beta_4 PE_{i,t} + \beta_5 AVAGE_{i,t} + \beta_6 AVAGE^2{}_{i,t} +$$
$$\beta_7 AVTEN_{i,t} + \beta_8 AVTEN^2{}_{i,t} + \beta_9 NONUK_{i,t} + \beta_{10} FEMALE_{i,t} + \beta_{11} EXPLAYER_{i,t} +$$
$$\beta_{12} BACKHOM_{i,t} + \beta_{13} YearDummies + \beta_{14} ClubDummies + \varepsilon_{i,t}$$

CEO duality (CEOD) is incorporated as a binary variable which takes the value of 1, when the same person holds the title of the CEO and is also the chairman of the board, and the value of 0 if otherwise. Additionally, the points earned throughout the season are taken into account to control for the effects of success that a club had in the season. The structure of our research consists of applying a model, which includes our set of corporate governance variables in combination with three additional components, to explain differences in valuation. One of them is a variable that takes the value of 1 if the club is in the Premier League and 0 otherwise to control for the competition level environment. The other two components are the squared terms of average age and average tenure to capture the potential U-shaped effect of age and tenure on the financial and sporting performance on the club. To accept our H.1 about the effects of CEO duality, the coefficient β_1 must be negative and significant.

Next, to test the rest of our hypotheses and to check the robustness of our results, we estimate the same model but this time we use as a dependent variable the end-year value of net income. We do this to further test the explanatory power of our model on a different measure of financial performance. The MV is a valuation measure that incorporates elements, like attendance and stadium capacity, which in most cases do not vary significantly over time. This may lead to undermining the performance of certain clubs that had a good financial year but lack the luxury of a big stadium and high attendance. To accept our hypothesis H.2 the coefficient β_1 must be negative and significant. Model 2 is displayed below:

$$\text{(Model 2): } NI_{i,t} = a_0 + \beta_1 CEOD_{i,t} + \beta_2 EPL_{i,t} + \beta_3 BS_{i,t} + \beta_4 PE_{i,t} + \beta_5 AVAGE_{i,t} + \beta_6 AVAGE^2{}_{i,t} +$$
$$\beta_7 AVTEN_{i,t} + \beta_8 AVTEN^2{}_{i,t} + \beta_9 NONUK_{i,t} + \beta_{10} FEMALE_{i,t} + \beta_{11} EXPLAYER_{i,t} +$$
$$\beta_{12} BACKHOM_{i,t} + \beta_{13} INTASS_{i,t} + \beta_{14} YearDummies + \beta_{15} ClubDummies + \varepsilon_{i,t}$$

In Model 2, the variable INTASS, which denotes the end year intangible assets for each club-year observation, is added in the model to control for the value of players' contracts that is captured in this account on the balance sheet. Benkraiem et al. (2011) argue that soccer clubs base their operations heavily on intangible assets (player contracts, brand names, etc.). We decide not to include this control variable in the regressions with MV as the intangible assets are included in the net assets, which is a component of the multivariate model and there would be a high level of correlation between the two. For H.3 regarding the background homogeneity of the board, the coefficient β_{12} must be positive and statistically significant

to accept the hypothesis. Furthermore, in order to make a conclusion on the effects of tenure, hypothesis H.4, we expect the variable AVTEN, which represents the average tenure of the board, to have a positive and significant coefficient estimate. Moving on to board size, coefficient, for our H.5 to be true the coefficient on board size β3, must be positive and statistically significant. By including fixed effects, we take into account that there are differences between clubs or seasons that are not captured by our initial explanatory variables.

In the last model that we are going to estimate we consider wins achieved (WINS) as our dependent variable. We estimate this model because we want to identify the effects that our variables have on the sporting success of the club. It is interesting to see how our model predicts on-the-field performance next to predicting financial performance. Model 3 is described below:

$$\text{(Model 3): } \mathrm{WINS}_{i,t} = a_0 + \beta_1 \mathrm{EPL}_{i,t} + \beta_2 \mathrm{WAGE}_{i,t} + \beta_3 \mathrm{INTASS}_{i,t} + \beta_4 \mathrm{CEOD}_{i,t} + \beta_5 \mathrm{BS}_{i,t} + \beta_6 \mathrm{AVAGE}_{i,t} + \beta_7 \mathrm{AVTEN}_{i,t} + \beta_8 \mathrm{FEMALE}_{i,t} + \beta_9 \mathrm{NONUK}_{i,t} + \beta_{10} \mathrm{BACKHOM}_{i,t} + \beta_{11} \mathrm{YearDummies} + \beta_{12} \mathrm{ClubDummies} + \varepsilon_{i,t}$$

4. Empirical Findings

The results from the estimation of the PLS regression Models 1 and 2 are presented in Table 5.

Model	(1)	(2)
Premier League	0.65***	0.00***
	(0.09)	(0.10)
Points Earned	0.00	0.00
	(0.002)	(0.002)
Intangible Assets		-0.00
		(-0.00)
CEO Duality	-0.14***	-0.2***
	(0.07)	(0.07)
Board Size	0.008	0.002
	(0.02)	(0.02)
Age	0.03	0.05
	(0.07)	(0.07)
Age^2	-0.00	-0.00
	(0.07)	(0.00)
Tenure	0.01	0.06
	(0.03)	(0.03)
Tenure^2	0.00	-0.001
	(0.001)	(0.001)
Female	-0.31	0.13
	(0.64)	(0.70)
Non Native	-0.11	-0.20
	(0.22)	(0.24)
Background Homogeneity	0.11	0.60**
	(0.24)	(0.25)
Ex Player	0.69	0.73
	(0.66)	(0.71)
Constant	-1.34	-1.7
Adj. R-squared	0.33	0.21
No. of obs.	203	203

Table 5: Regression Coefficient Estimates on Multivariate Valuation Model (I) and Net Income (II), (PLS robust standard errors in parenthesis).

*Notes: Participation in the Premier League, points earned, age and tenure quadratic terms, intangible assets, proportion of non UK directors, female directors, proportion of directors with a football background and proportion of directors that had served in another club are controlled. The dependent variable net income has been normalized to have a normal distribution as well as the dependent variable MV. *p≤.05, ** p ≤.01, *** p ≤.001*

CEO Duality

Regarding our hypothesis H.1, the coefficient β_1 on CEO duality is negative and significant in both models leading us to accept H.1. This result shows that adopting a dual-CEO model has the incumbent risk of lowering the club's value and potential. CEOs of modern corporations have decision rights but not control rights of shareholder capital. As a result, CEOs have conflicting interests and do not always act to the best interest of shareholder value. Board of directors is the heart of the decision monitoring system of modern corporations, which mitigates agency problems due to the separation of ownership and control (Fama & Jensen, 1983). Having CEOs lead this monitoring hierarchy is more likely to compromise the effectiveness of the control system and inflate the conflict of interest. After considering the results from the estimation of Model 1 we can accept our H.1 that clubs with a duality structure will be associated with lower club valuation. In Model 2, the coefficient on CEOD is again significantly negative indicating that clubs with a duality board structure will be associated with lower net income. These findings are consistent with those from Judge et al. (2003) who conducted a survey research on Russia and found a negative relationship between the CEO duality and firm performance and those from Yermack (1996) who documented that firm performance was higher when the CEO's and the chairman's positions are held by two different people. With respect to the results of Model 2, we can accept our hypothesis H.2 that there is a negative relation between CEO duality and the club's net income.

Board Diversity

With regards to our hypothesis H.3 about board diversity we expect a positive correlation with firm profitability. From the results of Model 2, we see that the coefficient β_3 on background homogeneity is positive and significant. This means that as the proportion of directors that share a similar professional background increases within the board of the club, its profitability is more likely to be higher. Simons and Pelled (1999) argued that experience diversity had a negative correlation with return on investment and overall organizational performance mainly because of informal communication among top teams. In football the board must be fast in decision making and problem solving to be on top of the challenges that the fast changing environment requires. Directors need to be informed about changes in legislation, financial restrictions and transfer market movements. The need to arrive in decisions fast and effectively is of key importance for the financial stability but also for the sporting success of the club. Our results are consistent with previous studies such as Hambrick, Cho and Chen (1996) who conducted a longitudinal study on the effects of diversity of top management where diversity was measured by functional, educational, and tenure heterogeneity. Their findings document that homogeneous top management teams outperformed heterogeneous ones. Additionally, they argued that heterogeneous teams were slower in decision making and less likely to respond to competitors' initiatives. As an explanation, they support that in a group of individuals with diverse backgrounds, it is more possible for executives to disagree thus

weakening the team effectiveness. More importantly, Murray (1989) used eighty-four Fortune 500 food and oil companies to research into heterogeneous versus homogeneous groups and their effect on organizational performance. Findings showed that performance and diversity is related to the type of market the organization is operating in. Homogenous groups were more effective than heterogeneous groups during intense market competition. Despite the fact that previous literature provides arguments both in favor and against background homogeneity it seems that in football a homogeneous board is able to cope with challenges easier and is correlated with higher financial performance. Considering the results of the regression in Model 2 and the positive and significant coefficient of background homogeneity on the club's net income we accept our hypothesis H.3 that there is a positive relation between the levels of background homogeneity in terms of professional background in the board of directors and the club's profitability.

Board Tenure

Many studies document that tenure exhibits a concave U-shaped relation with club value. This means that board directors are learning throughout their tenure in the club, increasing club value, but up to a certain threshold (Huang, 2013). Huang's results are also indicating that the benefits and costs of learning and entrenchment, above and beyond those driven by changes in board composition, change over time and hence affect firm decisions and performance. Our hypothesis H.4 regarding the board's tenure in football clubs in the Premier League suggests that clubs with boards with higher tenures will be correlated with higher financial performance. However, the results from the estimation of Model 2 indicate that the coefficient on AVTEN is on a marginal trend towards significance with a p-value of 0.052 and prevents us from accepting hypothesis H.4 however there is a clear indication that tenure can be of notable importance when considering board composition. Our results are similar to those of previous studies like Francis, Hasan and Wu (2012) where there was no significant relationship between tenure and firm performance. The results could be insignificant because in football there might be other aspects of board composition that overcome tenure as more crucial board characteristics or it could mean that the length of our study does not allow us to capture the effects of tenure. With respect to our results we do not accept hypothesis H.4 that tenure is positively correlated with firm profitability.

Board Size

Regarding our H.5, the coefficient on BS is positive for both Models while the effect is of insignificant importance. Previous studies like Guest (2009), argue that the potential problems of large boards will depend on the specific functions and effectiveness of boards and this will vary according to the institutional and legal environment. For example, it has been argued that UK boards play a much weaker monitoring role than US boards (Guest, 2008). However, there are several reasons why the monitoring

function will be carried out less effectively in the UK. Firstly, UK outside directors are rarely held legally accountable for failing to fulfill their legal duty of care and loyalty, and consequently they regard their role as being primarily that of advising rather than monitoring (Franks et al., 2001). Secondly, UK boards have historically consisted of a lower proportion of outside directors who are less independent from management (Cosh & Hughes, 1987). Finally, the financial incentives (shareholding and remuneration) for outside directors in the UK to fulfill their functions are lower (Cosh & Hughes, 1987; Higgs, 2003). Some studies like the one from Holthausen and Larcker (1993b) also find no relation between the size of the board and the firm's performance. Our insignificant results could be due to the fact that our sample consists of clubs that belong only in UK leagues giving less freedom in board size to vary across clubs and years. Another problem that arises when studying board size is the number of directors might be determined endogenously as function of other parameters such as company size, performance or CEO's preferences. Given the aforementioned facts and the regression results we conclude in rejecting H.5.

Additionally, both in Model 1 and Model 2 the coefficients for average age and its squared term are positive and negative, respectively, both with insignificant statistical importance. These results lead us to think that there is no relation between the average age of the board and the club's value or the club's profitability. Several studies argue that appointing young members on the board may lead to loss in value due to inexperience and that while age increases, so does the experience of the board and its effectiveness; or that youthful managers are more prone in undertaking risk, and firms with young managers experience higher growth than the ones with older managers (Hambrick & Mason, 1984). Despite the fact that it seems like a relation between age and firm performance has been documented in previous studies we fail to find a relationship between the two. From our results in both models, we see that clubs playing in the elite Premier League division are ahead, in terms of valuation and profitability, considering the coefficients β_2 in both Models 1 and 2. These results are statistically significant and in line with our expectations as clubs participating in the EPL attract greater attendance, more sponsors as well as greater attention by the media and foreign investment. The rest of our explanatory variables have insignificant p-values in both models. This leads us to think that our multivariate valuation model is insensitive to changes in the proportion of native UK directors and changes in the proportion of female directors. We draw the same conclusions about the proportion of directors that had a professional football career and the ones that had served as directors in another club. The results are not of significant importance in both our models.

Finally, the results from the estimation of Model 3 are presented in Table 6.

Model	(3)
Premier League	-11***
	(0.9)
WAGE	-0.00***
	(0.0)
Intangible Assets	-0.0
	(0.0)
CEO Duality	0.8
	(0.9)
Board Size	0.12
	(0.3)
Age	-0.01
	(0.11)
Tenure	0.4*
	(0.19)
Female	8.9
	(7.93)
Non Native	0.26
	(2.9)
Background Homogeneity	2.02
	(3.17)
Constant	-1.34
Adj. R-squared	0.33
No. of obs.	203

Table 6: Regression Coefficient Estimates on Wins Model (3), (PLS robust standard errors in parenthesis)

Notes: Participation in the Premier League, wages, age and tenure, intangible assets, proportion of non UK directors, female directors, proportion of directors with a football background and proportion of directors that had served in another club are controlled.
*$p \leq .05$, ** $p \leq .01$, *** $p \leq .001$*

CEOD has a positive but insignificant coefficient which means that CEO duality is not related to the club's on-the-field success. Despite the fact that CEO duality is related to lower valuation and revenue, as we document above, we fail to find evidence that CEO duality is also correlated with a decrease in the club's success. Intangible assets show no correlation with wins. From our results, there seems to be no relation between board size and club sporting success. On the other hand, average tenure and has a positive and significant coefficient, indicating that there is a relationship between the two. Tenure is positively correlated with the club's wins which leads us to think that as the tenure of the board increases the execution of its duties become more effective thus making accurate decisions. We also can see that participating in the Premier League includes earning less points but this is expected as the promotion in a

better League leads in increase of the quality and the competition in the league thus making winning harder. NONUK is of insignificant importance as it was in Models 1 and 2, showing that there is no relation between the proportion of non-UK directors in the board and sporting success while the same results can be drawn from the coefficient on female directors which shows that the proportion of female directors on the board is not correlated with a change in wins in the league.

5. Sensitivity Analysis

Our main analysis focuses on how differences in club value and revenue generation are explained by differences in the corporate governance of clubs. In addition to the analysis described in 4.4, to further test the robustness of our results we want to see how differences in the corporate governance structure of clubs affect other important aspects of financial stability and profitability. Several studies have used different variables as measures of financial performance and profitability depending on the nature of the study but also on the legal and government environment of the population under research. We re-estimate Model 1 and 2 but this time we use as a dependent variable the end year return on assets (ROA). We do this because we want to see the effect of our model on a different measure of financial health. Return on assets can be an important ratio for football clubs as they are, from an accounting perspective, heavily dependent on their fixed assets as well as the intangible assets. The first includes the club's most important assets, the stadium, and the other contains the value of the football squad contracts. ROA takes into account the assets used to support business activities. It determines whether the company is able to generate a satisfying return on these assets rather than simply showing robust return on sales. Additionally, we estimate the models with net current assets as the dependent variable. We also test our models further using as dependent variable the end year turnover. We use turnover as an alternative measure of financial performance because it is one of the largest and most value-relevant items in firms' financial statements and is considered a key value driver of shareholder value (Zhang, 2005; Ghosh et al., 2005). The ability of revenue to substitute for net income as a measure of firm performance appears to be a function of its relatively greater persistence (Armstrong, Davila, Foster, and Hand 2011; Jegadeesh & Livnat 2006), greater difficulty in managing revenues than costs (Ertimur et al., 2003), and the view that revenue is more easily understood by financial statement users than accounting earnings. In this section of our study we present results from additional analysis of our models. The results from these additional estimations can be found in the Appendix. From our results we see that CEO duality is negatively correlated with ROA and net current assets. Additionally, we fail to associate board size with any of our additional dependent variables; in previous studies, research into the effects of board size on firm performance has been limited by problems of endogeneity (Hermalin & Weisbach, 2001). Our results in

both the main and the sensitivity analysis do not allow us to make any conclusions on the effect of the board's size in relation with club value or revenue. On the other hand, it is clear that sporting success is a determinant of revenue generation highlighting the need for clubs to improve both in terms of organization but also in terms of on-the-ground performance. Finally, further robustness tests were considered as the elimination of certain related variables like age or tenure. The elimination of co-variant variables like age or tenure was not fruitful in terms of significance. We believe that if the research sample was a broader and included more clubs from other countries the differences would be bigger. The gathering of credible board data for the current sample was quite challenging to find and was possible due to the reporting requirements of the UK. The inclusion of more clubs from other leagues would be beneficial but regardless, using the current sample we are able to see significant variance in important factors as CEO duality.

6. Limitations

There are several limitations to our research but there is also room for further studies in the football industry. First, our study is limited to a seven year period, from 2008 to 2014, and only in the UK. Football in the UK is of top quality both in organizational standards but also in terms of quality; this does not mean that other leagues around the world are not of high quality. It would be interesting to see how corporate governance standards around the world affect clubs in terms of financial stability and valuation and in terms of sporting success. The inclusion of more countries in the sample would increase the explanatory power of the model although information on clubs' financials and especially information about the board of directors is quite hard to collect. Also a different time period could be analyzed while one should consider that data availability is limited especially before 2005. Additionally, a characteristic of the board's composition that we did not incorporate in this study is the proportion of independent directors. Many studies corroborate that the presence of independent directors is of great importance to the success of a firm. Firms with a high ratio of independent directors are associated with less financial pressure (Elloumi & Gueyie, 2001). Finally, we had difficulty in gathering information regarding the ownership share that several directors might hold but also information about corporate provisions. There is a strand of literature that investigates the effects of provisions (Gompers, Ishi & Metrick, 2003; Bebchuk, Cohen & Ferrell, (2004). The aforementioned facts indicate fields that we were not able to discuss in this study and provide the initiative for further research.

7. Conclusion

The purpose of this research was to investigate the issue of corporate governance and its effects on the financial and on-the-field performance of UK football clubs, by analyzing a sample of 29 UK clubs over the period 2008-2014. The results indicate that a duality CEO structure is consistently correlated negatively with club value and revenue generation. This result enhances the agency theory where duality promotes CEO entrenchment by reducing board monitoring effectiveness. We also document evidence that as the proportion of directors that share a similar professional background increases within the board of the club, its profitability is more likely to be higher. Our results indicate that more homogenous boards outperform less homogenous boards in terms of professional background, possibly because of faster decision-making. We fail to associate board size and tenure with club profitability which leads us to think that in our sample, when clubs and time are held constant, these explanatory variables are of less significant importance. Lastly, we did not find evidence of characteristics of the board that influence both financial performance and sporting success.

These results further show that the football industry would be benefited by incorporating strong corporate governance standards in their club structure as they can sustain their current financial status but also their future viability. It is important for football clubs to balance financial stability and sporting success since both are determinants of overall performance. Incorporating better governance standards can boost economic performance thus giving more flexibility for acquiring players and improving infrastructure investment. On the other hand, profits must be effectively allocated to employing experienced and high quality staff as well as keeping high stadium and facilities standards. The club must do its best to perform on the field to ensure consistent flow of future revenue. The results documented in this study could be of use for governing bodies of football, such as the Football Association in England, but also to football managers and regulators. Owners and managers of clubs should be aware that effective corporate governance can be a key driver of improving their financial performance and potentially contribute to their on-the-field success.

However, this study focuses in one country over a period of seven years and also on one specific sport. Therefore, it is not feasible to generalize the conclusions drawn from this research to other sports sectors. Different sports around the world operate under a completely altered environment than football and they have different dynamics. This is another subject that further research can shed light upon; the connection between corporate governance and other professional sports industries.

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Appendix

Correlations

MODEL 1

	NORMMV	EPL	PE	CEOD	BS	AVAGE	SQAVAGE	AVTEN	SQAVTEN	FEMALE	NONUK	BACKHOM	EXPLAYER
NORMMV	1,00	0,40	-0,32	0,01	-0,04	0,01	0,01	0,14	0,13	0,05	-0,11	0,00	0,02
EPL	0,40	1,00	-0,46	0,29	-0,12	-0,10	-0,08	0,14	0,12	0,17	-0,04	-0,11	0,11
PE	-0,32	-0,46	1,00	-0,02	0,06	0,10	0,10	0,05	0,08	-0,14	0,15	0,05	0,06
CEOD	0,01	0,29	-0,02	1,00	0,09	-0,14	-0,15	0,02	0,05	0,11	0,04	-0,06	-0,08
BS	-0,04	-0,1	0,06	0,09	1,00	0,14	0,12	0,00	-0,02	0,03	0,11	-0,26	-0,22
AVAGE	0,01	-0,10	0,10	-0,14	0,14	1,00	1,00	0,54	0,49	-0,19	-0,12	0,05	-0,07
SQAVAGE	0,01	-0,08	0,10	-0,15	0,12	1,00	1,00	0,54	0,49	-0,17	-0,13	0,06	-0,05
AVTEN	0,14	0,14	0,05	0,02	0,00	0,54	0,54	1,00	0,96	0,01	-0,48	-0,13	0,22
SQAVTEN	0,13	0,12	0,08	0,05	-0,02	0,49	0,49	0,96	1,00	0,02	-0,44	-0,13	0,28
FEMALE	0,05	0,17	-0,14	0,11	0,03	-0,19	-0,17	0,01	0,02	1,00	-0,19	-0,47	0,17
NONUK	-0,11	-0,04	0,15	0,04	0,11	-0,12	-0,13	-0,48	-0,44	-0,19	1,00	0,23	-0,22
BACKHOM	0,00	-0,11	0,05	-0,06	-0,26	0,05	0,06	-0,13	-0,13	-0,47	0,23	1,00	-0,28
EXPLAYER	0,02	0,11	0,06	-0,08	-0,22	-0,07	-0,05	0,22	0,28	0,17	-0,22	-0,28	1,00

Appendix Table 1: Pearson Correlation Table - Model 1; Dependent Variable: Multivariate valuation (Normalized)

MODEL 2

	NORMNI	EPL	PE	INTASS	CEOD	BS	AVAGE	SQAVAGE	AVTEN	SQAVTEN	FEMALE	NONUK	BACKHOM	EXPLAYER
NORMNI	1,00	0,07	-0,16	-0,09	-0,13	0,03	0,07	0,07	0,01	-0,04	-0,10	-0,03	0,11	-0,01
EPL	0,07	1,00	-0,46	0,49	0,29	-0,12	-0,10	-0,08	0,14	0,12	0,17	-0,04	-0,11	0,11
PE	-0,16	-0,46	1,00	0,25	-0,02	0,06	0,10	0,10	0,05	0,08	-0,14	0,15	0,05	0,06
INTASS	-0,09	0,49	0,25	1,00	0,21	-0,05	-0,17	-0,16	-0,01	0,03	0,08	0,27	-0,04	0,08
CEOD	-0,13	0,29	-0,02	0,21	1,00	0,09	-0,14	-0,15	0,02	0,05	0,11	0,04	-0,06	-0,08
BS	0,03	-0,12	0,06	-0,05	0,09	1,00	0,14	0,12	0,00	-0,02	0,03	0,11	-0,26	-0,22
AVAGE	0,07	-0,10	0,10	-0,17	-0,14	0,14	1,00	1,00	0,54	0,49	-0,19	-0,12	0,05	-0,07
SQAVAGE	0,07	-0,08	0,10	-0,16	-0,15	0,12	1,00	1,00	0,54	0,49	-0,17	-0,13	0,06	-0,05
AVTEN	0,01	0,14	0,05	-0,01	0,02	0,00	0,54	0,54	1,00	0,96	0,01	-0,48	-0,13	0,22
SQAVTEN	-0,04	0,12	0,08	0,03	0,05	-0,02	0,49	0,49	0,96	1,00	0,02	-0,44	-0,13	0,28
FEMALE	-0,10	0,17	-0,14	0,08	0,11	0,03	-0,19	-0,17	0,01	0,02	1,00	-0,19	-0,47	0,17
NONUK	-0,03	-0,04	0,15	0,27	0,04	0,11	-0,12	-0,13	-0,48	-0,44	-0,19	1,00	0,23	-0,22
BACKHOM	0,11	-0,11	0,05	-0,04	-0,06	-0,26	0,05	0,06	-0,13	-0,13	-0,47	0,23	1,00	-0,28
EXPLAYER	-0,01	0,11	0,06	0,08	-0,08	-0,22	-0,07	-0,05	0,22	0,28	0,17	-0,22	-0,28	1,00

Appendix Table 2: Pearson Correlation Table - Model 2; Dependent Variable: Net income (Normalized)

MODEL 3

	WINS	EPL	WAGE	INTASS	CEOD	BS	AVAGE	AVTEN	FEMALE	NONUK	BACKHOM
WINS	1,00	-0,36	0,31	0,32	0,02	0,05	0,10	0,07	-0,12	0,14	0,04
EPL	-0,36	1,00	0,59	0,49	0,29	-0,12	-0,10	0,14	0,17	-0,04	-0,11
WAGE	0,31	0,59	1,00	0,90	0,27	-0,09	-0,06	0,08	0,01	0,25	-0,02
INTASS	0,32	0,49	0,90	1,00	0,21	-0,05	-0,17	-0,01	0,08	0,27	-0,04
CEOD	0,02	0,29	0,27	0,21	1,00	0,09	-0,14	0,02	0,11	0,04	-0,06
BS	0,05	-0,12	-0,09	-0,05	0,09	1,00	0,14	0,00	0,03	0,11	-0,26
AVAGE	0,10	-0,10	-0,06	-0,17	-0,14	0,14	1,00	0,54	-0,19	-0,12	0,05
AVTEN	0,07	0,14	0,08	-0,01	0,02	0,00	0,54	1,00	0,01	-0,48	-0,13
FEMALE	-0,12	0,17	0,01	0,08	0,11	0,03	-0,19	0,01	1,00	-0,19	-0,47
NONUK	0,14	-0,04	0,25	0,27	0,04	0,11	-0,12	-0,48	-0,19	1,00	0,23
BACKHOM	0,04	-0,11	-0,02	-0,04	-0,06	-0,26	0,05	-0,13	-0,47	0,23	1,00

Appendix Table 3: Pearson Correlation Table - Model 3; Dependent Variable: WINS

Robustness tests

	y=LOGTUR	y=NORMNCA	y=ROA
Premier League	0.51***	-0.06	29.77***
	(0.04)	(0.09)	(7.98)
Points Earned	0.00***	0.00	0.13
	(0.0)	(0.00)	(0.17)
Intangible Assets	0.00		-0.00
	(0.00)		(0.00)
CEO Duality	-0.06*	-0.06	-14.47*
	(0.03)	(0.07)	(5.87)
Board Size	-0.00	0.02	-1.63
	(0.01)	(0.02)	(1.92)
Age	0.06	-0.13	0.05
	(0.03)	(0.07)	(5.91)
Age^2	-0.00	0.00	0.00
	(0.00)	(0.00)	(0.01)
Tenure	-0.00	-0.00	0.11
	(0.01)	(0.03)	(2.44)
Tenure^2	0.00	-0.00	(0.00)
	(0.00)	(0.00)	(0.11)
Female	-0.03	-1.83***	-7.95
	(0.29)	(0.62)	(50.00)
Non Native	-0.14	-0.65***	-6.43
	(0.01)	(-2.83)	(19.47)
Background Homogeneity	-0.01	0.15	16.58
	(0.01)	(0.24)	(53.27)
Constant	5.96	4.06	-44.54
	(0.95)	(2.03)	(162.22)
Adj. R-squared	0.90	0.42	0.35
No. of obs.	203	203	203

Appendix Table 4: Regression Coefficient Estimates of Model 1 and 2 with dependent variable the log of turnover (LOGTUR), net current assets (NORMNCA) and ROA. (PLS robust standard errors in parenthesis)

Notes: Participation in the Premier League, points earned, age and tenure quadratic terms, intangible assets, proportion of non UK directors, female directors, proportion of directors with a football background and proportion of directors that had served in another club are controlled. The dependent variable net current assets has been normalized to have a normal distribution..
**p≤.05, ** p ≤.01, *** p ≤.001*