

THE FINANCIAL COLLAPSE OF RANGERS: LESSONS FOR THE BUSINESS OF FOOTBALL?

The debacle over the collapse of one of Scotland's premier clubs just runs and runs. **Stephen Morrow** examines the questions of governance and accountability that the whole sorry affair raises for "the people's game".

"I bought the club because I am a fan and I think I can run it as a business and do well", Craig Whyte, quoted in Esplin, R. and Walker, G. (2011), *The Official Biography of Rangers*, p.8.



Even by the often bizarre financial and business behaviour of football clubs, the story of Rangers and its collapse into administration, and subsequent liquidation, stands out.

An organisation with very humble beginnings, Rangers was started in 1872 as a street team by four teenage boys from the Gareloch, brothers Moses and Peter McNeil, Peter Campbell and William McBeath, who had become enthused by the new sport of football. Since then it has developed into a world famous club: hugely successful on the field of play in Scotland, its 54 league championships being more than any other club in the world; considered by many as a Scottish institution, a status reflected in the extraordinary media and public interest in the club and its situation since it was placed in administration on 14th February 2012. Even by the often bizarre financial and business behaviour of football clubs, the story of Rangers and its collapse into administration, and subsequent liquidation, stands out. Daily updates have emerged from the administrators and elsewhere of evidence and claims of financial and governance failure and possible malpractice by those who have owned and run the club. The nine months of the Craig Whyte regime saw a failure to pay PAYE and VAT; the advance sale of future years'

season tickets as a means of funding Whyte's acquisition of the club, a failure to disclose such information, more so, an initial denial that ticket sales had been leveraged and used in that way; the club and Whyte being charged by the SFA for breaches of its rules concerning compliance with the governing body's Articles of Association, insolvency and bringing the game into disrepute ... The legacy of the previous ownership of Sir David Murray? A forced sale of a markedly downsized club, the consequence of previous financial excess and living beyond the club's sustainable financial means; a major on-going tax dispute and subsequent tribunal set up to adjudicate on the question of an Employee Benefits Trust – a tax avoidance scheme set up to make the club more attractive to higher quality players; claims of dual contracts for players against SFA rules ... While much of the Rangers story remains unclear, what is emphatically clear is that there is marked difference between this contemporary presentation of Rangers Football Club and its historical presentation, captured, for example, by one of its most legendary figures, the former manager, Bill Struth:

"To be a Ranger is to sense the sacred trust of upholding all that such a name means in this shrine of football. They must be true in their conception of what the Ibrox tradition seeks from them. No true

Ranger has ever failed in the tradition set him".¹

The current crisis at Rangers has three related elements: i) what happened in terms of the club's activities, management and governance after Craig Whyte took over in May 2011; ii) the management of the club prior to the takeover, under the ownership of Sir David Murray; and iii) the takeover deal and financial arrangements, which brought these two parties together. While some of the issues are specific to this club, its takeover and the individuals involved, more generic issues also arise in terms of the business of football and the ownership and governance of clubs. The aim of this piece is to not to retell the on-going Rangers story, but rather to place it in its wider context.

LIMITED LIABILITY

Like many other British clubs, the early Rangers Football Club was an association of individuals concerned with promoting the playing of the game and with no concern over the pursuit of profit or financial gain. While football in other countries continues to be organised through a membership association structure, most clubs in Scotland and England quickly adopted the structure of limited liability companies (Rangers converted to limited liability status in 1899), motivated initially by a desire to protect the founders and officers from personal liability in the event of the clubs developing unpayable debts, particularly as wages rose – rather ironical when one reflects on the apparent purpose of the Employee Benefits Trust at Rangers. While the initial motivation for this structure was rational, its consequences for professional football in the UK have been far reaching and continue to have major ramifications for clubs. The limited liability model normally results in a separation of ownership and control of a company. In football clubs, however, the two often continue to overlap, with consequences for governance and accountability and can result in a division between those who

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own and run the clubs and those who support them.

In recent times, Rangers FC has had a concentrated ownership and control structure, with a single individual owning directly, or through other corporate interests, a large percentage of shares. Prior to David Murray's ownership the club was owned and controlled (65.98%) from November 1985 by John Lawrence (Glasgow) Ltd, a company controlled by Lawrence Marlborough. Marlborough was the grandson of John Lawrence, who had been Chairman of Rangers for a decade from 1963, during which time he became the club's majority owner. It was Marlborough who appointed David Holmes as chief executive and subsequently also as chairman; in turn Holmes appointed Graeme Souness as manager in June 1986; and in turn Souness played a part in David Murray's decision in 1988 to take a controlling interest in the club through his company Murray International Holdings Ltd. In May 2011, Murray sold his 85.3% shareholding to Craig Whyte.

ACCEPTED WISDOM

For a long time accepted wisdom in the business of football was the concentrated ownership model – the so-called benign dictator or benefactor model – was the ideal ownership structure for a club. What could be better than for one's football club to be owned and managed by a wealthy businessman, motivated not by profit but by non-financial objectives such as sporting success? This seems certainly the view held by many Rangers supporters during the high spending years of David Murray's ownership, but would be just as commonly held among supporters of, say, Chelsea under Roman Abramovich, Manchester City under Sheikh Mansour, Inter Milan under Massimo Moratti and many others. But given the peculiarities of football clubs, more critical analysis of this supposed ideal model is required.

Football clubs in the UK and in many other countries continue to

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have cultural and social significance. This is apparent in the enduring high profile presence of these clubs in specific communities, not necessarily only geographical communities, but is most visibly demonstrated in ways in which a supporter tends to identify with a particular club, a relationship which extends well beyond financial transactions. Easy to exaggerate supporter loyalty, it remains a vitally important asset to football clubs. But there is a risk that this loyalty can be exploited or expropriated by some owners and directors. Craig Whyte's decision to finance his takeover using funds generated through selling the asset of future season tickets is a clear example of expropriation in cash flow terms. But expropriation is also a risk in the context of non-financial objectives. Where a dominant owner presents all decisions and behaviour in terms of "trying to do what is best for this football club", it becomes difficult for supporters to challenge the owner, concerned at being portrayed in some way as against "their club".

SOCIAL CONTROL

The multi-faceted nature of their relationship with a club means that supporters are reluctant to use market-based approaches such as exit (i.e. withdrawing their financial support) as means of controlling or disciplining behaviour. Under some conditions social control may be a more efficient means of control than markets. Ordinarily if society deems an organisation unworthy of continued support, it will withhold that support and the organisation will cease to exist. The disappearance of the accounting and auditing firm Arthur Andersen in the wake of the Enron debacle, despite the absence of any obvious legal precedent for dismantling it, would be one such example.² More recently the *News of the World* is another example. Here the organisations are deemed to have abused their status, thus forfeiting their right to be treated as

going concerns. The anti-Glazer family ownership protests at Manchester United, the Green and Gold campaign, in which supporters invoked notions of the club's origins as Newton Heath, was one example of attempts to use social control in a football setting. However, as was apparent in this example, the very centrality of the club to many people's identity and the fear of undermining the institution rather than the owners, means that without supporters also being willing to invoke economic sanctions to restrain the club, the most likely outcome is no change. The supporters' dilemma at Rangers is not diminished by close relationships between some members of the media and those in positions of control in the club, resulting in the paucity of critical media scrutiny.³ Reflecting on the period of excessive spending by David Murray, one interpretation is that his position as majority owner enabled him to exploit the commitment and loyalty of its supporters; the shared desire for success being asserted and used to justify irrational and unsustainable financial behaviour. To many, contributing to the possible disappearance of a social and cultural institution which has been an integral part of its communities for more than 100 years might be considered the ultimate expropriation of a football club's stakeholders. Over the years, even in those clubs which have been most spectacularly mismanaged resulting in adverse economic and social consequences, society or stakeholder groups tend to deem the organisation (as distinct from the owners and managers) as worthy of support at all costs. Without any form of effective social control and in the absence of a sufficiently rigorous regulatory system⁴, there is unfettered market control: anyone can buy and sell a club, can manage or mismanage it as they see fit, with little or no obligation to give a proper and full account of their activities to stakeholders. The limited liability model leaves many stakeholders in

these social institutions neutered or powerless in terms of disciplining management.

DOMINANT OWNER

A further problem with a concentrated ownership framework is that its stability is entirely dependent on the current owner continuing to wish to own the club and in most cases, including Rangers, being able and willing to continue to fund it. While markedly different in size and scale, the consequences of former Gretna owner Brooks Milesen's illness and untimely death in 2008 highlight the risks of the dominant owner model. An investment estimated at £8m saw that club progress through the Scottish leagues, participating in the Scottish Premier League in 2007/08 and reaching the Scottish Cup final in season 2006/07, before the club was placed in administration in March 2008 and then liquidation in July 2008. There is, of course, no parallel between the two clubs in terms of their history, community and supporter base: one thing that almost all observers are agreed on is that in some shape or form Rangers will continue as a football club. But at the same time, in both these cases and others it is unarguable that there is no stability beyond the current owner. Hence, any club's supporters, its stakeholders, supplier companies or community organisations which have a business or societal relationship with it are exposed to and at risk from the behaviour of that dominant owner, including decisions taken by the owner as to who is an appropriate new owner. In a report in 2009 on Money Laundering in Football, the Financial Action Task Force expressed its concern about the effects of the inherent financial fragility of football clubs being exaggerated by the financial crisis, thus making it harder to find sponsors, concluding that "there is a risk that clubs that are in debt will not ask many questions when a new investor appears".⁵

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What then are the implications for Rangers and for football more widely? Football and football clubs have become obsessed with financial considerations. That it has become apparent that the SPL's broadcasting deal depends on four matches between Celtic and Rangers each season and that if required, the SPL rules could permit a reformed Rangers Newco to return straight into the SPL, clearly highlight the extent to which business considerations impinge upon sporting and ethical considerations. There is a long history in the UK of football clubs wearing corporate clothes and in recent decades, as the financial side of football has become ever more significant, increasingly football as an economic activity has become normalised, clubs viewed and reported by leading commentators as if they were normal businesses.⁶ Yet, it is manifest that, with one or two exceptions, they do not act as profit motivated businesses. One positive consequence of the high profile administration of Rangers is that it offered a reminder of what it is that football clubs actually are: social institutions with responsibilities and obligations to their stakeholders and to their communities; organisations that have a duty of accountability (not least financial accountability). In short football is not just another business. Its clubs are not just mere commodities to be bought and sold without consideration of their broader social role and communal contribution. These are organisations that are economic in basis, but social in nature. At best they operate as non-profit organisations, any surpluses generated being reinvested in those entities. At worst, they operate as irrational wage maximisers, every last £ of income and more being spent on player salaries in pursuit of "sporting success". Social and political reaction to the potential demise of Rangers demonstrates quite visibly that despite the rhetoric and the corporate clothes, in the final analysis society does not consider them as

businesses. Few other failing companies with an annual turnover ranging between £40m-£60m find themselves the centre of relentless media and political commentary for months (and counting ...).

LESSONS TO BE LEARNED?

What lessons are to be learned from this debacle to improve the governance and regulation of football? Within the limited liability corporate structure widespread in Scottish and English football, one option is to "play the game". Can supporters, individually or collectively, be encouraged to acquire financial ownership rights, broadening and ideally stabilising the ownership of clubs and hence gaining some influence within the company's management and decision-making? In 2000, the then UK Labour government established Supporters Direct to promote supporter involvement in football clubs in England and Scotland, particularly through the setting up of supporter trusts, collective structures akin to mutual societies or trade unions. At its core was the belief that supporters are the community in which a football club has its being. Ostensibly there remains political support for encouraging supporter and community ownership of football clubs, with both the Labour Party and Conservative Party manifestos for the 2010 UK General Election committing to policies in these areas.⁷ Subsequently the Coalition's commitment to this south of the border has been lukewarm at best, seemingly accepting the FA and the Premier League's position that Supporters Direct should be self-funding.⁸ By contrast, in Scotland the SNP has committed further funding to Supporters Direct Scotland to continue to support and advise existing supporter trusts and to broaden its reach and membership to other supporters' groups and individual fans. At least one of the groups that expressed interest in acquiring Rangers, the Blue Knights, worked with supporter groups to try to ensure a more

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inclusive ownership structure for the club going forward. While some way from a mutually structured organisation, this would have been a step in the right direction for Rangers and for other clubs, lessening the risks outlined above of expropriation by a dominant owner. In addition, ownership also brings responsibility and a requirement to temper stakeholder and supporter expectations or align those with the reality of the club's financial situation. At a club, where for all but very brief periods of its existence, success has been expected rather than hoped for, that will doubtless present its own challenges.

INCLUSIVE OWNERSHIP MODELS

In the present financial climate and in the knowledge of the business performance of many professional football clubs, few would argue for such clubs to be the recipients of public funding. However, the benefits to be gained from clubs having an opportunity to consider adoption of more inclusive ownership and governance models such as Community Interest Companies or Industrial and Provident Societies may well justify modest public support. Given the social significance of these organisations, grant funding to examine how best a club and its stakeholders could transform ownership structures to create a sustainable model could be public funds well spent. Many benefits may arise from broader ownership structures, not least the opportunity for a shared understanding among stakeholders of the business challenges of running a football club. The onus would also be put on a club's communities (in the broadest sense) to demonstrate that their club is, as often asserted, a vibrant social institution.

Financial behaviour is as important as structure and governance. From 2013–14 European football's governing body, UEFA, is introducing Financial Fair Play (FFP) regulations as part of its club licensing scheme. FFP regulations demand a break-even pattern, cal-

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culated by comparing relevant costs and income over a rolling three year period, relevance thereof dependent on political and value judgements about what types of activities clubs engage in and how they are financed. At its simplest, clubs must match football expenditure with football income. Expenditure on things like community or social activities or youth development is excluded from the calculation. FFP makes no comment on particular ownership models. Financial fairness does, however, restrict the behaviour of owners, with financial support from benefactors being restricted to investment in things like infrastructure, rather than compensating for operating losses on an ex-post basis. Given the high significance of salary costs for most clubs and the unwillingness or inability of directors to withstand unsustainable wage demands from players and their agents, FFP also acts as an implicit salary cap. This approach explicitly recognises the social nature of football, protects the integrity of leagues and competitions by focusing on financial fairness, at the same time making it more difficult for owners to behave in a manner detrimental to other stakeholders. In its domestic context, the SFA already operates a club licensing system. The introduction of FFP provides a template which can easily be extended beyond its current locus of clubs seeking to take part in UEFA's Europe-wide club competitions. Rolling out a modified form of FFP in respect of SPL clubs would be a sensible intervention for governing bodies, requiring clubs to carry through at all times on the rhetoric of living within their means. Returning to governance, it is also essential that a rigorous "fit and proper" person test be introduced. While this could be supervised directly by the game's authorities, a more effective approach may well be to engage external professionals to develop and oversee a system in which the size and status of a club, coupled with judgements on perceived risk

in respect of owners and directors, would influence the level of regulatory intervention deemed appropriate.

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NOTES

1. Esplin, R. and Walker, G. (2011), *The Official Biography of Rangers*, p.33.
2. Sama, L.M. and Shoaf, V. (2005), "Reconciling rules and principles: An ethics-based approach to corporate governance", *Journal of Business Ethics*, 58, pp.177–185.
3. See, for example, "My blog shows how Scotland's media were complicit in Rangers fall", *Rangerstaxcase.com*, The *Guardian*, 17 February 2012. For a broader discussion, see also, Boyle, R., Dinan, W. and Morrow, S. (2002) "Doing the Business? Newspaper reporting of the business of football", *Journalism*, 3 (2), pp.161–181.
4. For example, as SFA Chief Executive Stewart Regan has acknowledged, the SFA's "fit and proper person" criterion is reliant on clubs and individuals disclosing relevant information, and hence is akin to system of self-regulation.
5. Financial Action Task Force (2009), *Money Laundering in Football* (Paris: FATF/OECD).
6. Moorhouse, H.F. (2007), "Financial expertise, authority and power in the European football 'industry'", *Journal of Contemporary European Research*, 3(3), pp.290–299.
7. Labour Party Manifesto 2010, *A Future Fair for All*, Number 32; The Conservative Party Manifesto 2010, *Invitation to Join the Government of Britain*, p.39.
8. Conn, D. "FA raises white flag in 20-year battle for the soul of football", *The Guardian*, 14 March 2012, p.50.