Football clubs on the Stock Exchange: an inappropriate match?

The case of Celtic plc

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ABSTRACT

Focusing on the case of Celtic plc, this paper questions the extent to which Stock Exchange listed companies are appropriate vehicles for contemporary football clubs. It adopts an inclusive or stakeholder approach to ownership, focusing not only on the providers of capital as owners but also on the ownership rights of a football club's community. The paper argues in favour of ownership structures which more fully capture both the economic and social aspects of contemporary football clubs. It concludes by discussing alternative options for the ownership and governance of football clubs, considering in particular structures based on mutual and co-operative principles.

'Following the approach by BT Wolfensohn, the financial advisers to a consortium which includes the venture capitalists BT Capital Partners Europe, Kenny Dalglish, Jim Kerr and others (together, the 'Consortium'), the Board of Celtic plc has, after careful consideration with its advisers Greig Middleton & Co. Limited and Nomura International plc, concluded that the Consortium's proposals are not in the best interests of the ordinary and preference shareholders of Celtic.
The Board remains of the view that it is in the best long-term interests of Celtic for Mr McCann's shareholding to be offered to existing shareholders and season-book holders of Celtic and to other individual investors who are keenly interested in the long-term success of Celtic.'
(Announcement to the London Stock Exchange by the Board of Celtic plc, 18 December 1998)

INTRODUCTION

As has been well documented, the 1990s has seen football plc welcomed onto the Stock Exchange. As of May 1999 there are 21 clubs listed on the London market: 14 on the Official List and seven on the Alternative Investment Market (AIM). To date the amount raised by clubs which have floated totals £167m. At 30 June 1998 market capitalisation for listed clubs was £1,063m, down from a peak of £1,899m (Deloitte & Touche, 1998). Market listing for clubs is also becoming more usual in other European countries. Clubs are now listed in Denmark, Italy and Holland. It is also expected that German clubs such as Bayern Munich and Borussia Dortmund will shortly seek market listings.

However, it is often asserted that football is more than just a business. In this paper the stakeholder concept is utilised to provide a fuller understanding of the nature of contemporary football clubs. The paper addresses issues of ownership within football clubs, focusing not only on providers of capital as owners but also on other stakeholder groups who, it is argued, have proprietary claims. Notwithstanding the recent trend of clubs having their shares listed on the Stock Exchange, the paper continues by questioning the extent to which Stock Exchange listed companies are the appropriate vehicles for contemporary football clubs. In particular it focuses on the case of Celtic plc. Implications arising out of its market listing and proposed changes in the ownership of Celtic plc are used to consider the case for alternative forms of organisational structure for Celtic in particular, and for football clubs more generally.

THE STAKEHOLDER CONCEPT

In studies into the objectives of football clubs carried out in the 1970s and 1980s it was fairly common to describe clubs as utility maximisers, seeking to maximise playing success while remaining solvent (Sloane 1971, 1980; Sutherland and Haworth, 1986; Arnold and Benveniste, 1987). However, it has been argued that football's rush to the capital market place has brought with it a more shareholder-centric focus and a greater emphasis on the generation of profit and the maximisation of shareholder value (Conn, 1997, p. 154, Lee, 1999, p. 86). The floating of football clubs on the Stock Exchange has led to less concentrated ownership structures at many clubs (Morrow, 1999, pp. 78-83).

This in turn has led to improved governance as directors have been obliged to recognise the rights of other shareholders (Morrow, 1999, p. 87). Interestingly, however, as football has focused more on maximisation of shareholder value and the concomitant accountability to shareholders, much of the focus in wider political and business communities has been on alternative and more inclusive models of corporate behaviour and governance.

The most commonly discussed alternative model of corporate governance and behaviour is the stakeholder model. A stakeholder can be defined as ‘any group or individual who can affect or is affected by the achievement of the firm’s objectives’ (Freeman, 1984). While most commentators would argue that a company’s stakeholders would typically include its management, employees, customers, suppliers, owners, competitors and the community (however defined), critics argue that the definition is so wide that it includes practically everyone, everything, everywhere (Sternberg, 1998, p. 94). Two key aspects of stakeholder theory are, first, that corporations are accountable to all their stakeholders, and second, that a major objective of management is to balance the conflicting demands of the various stakeholders in the corporation (Ansoff, 1987, p. 51).

The stakeholder model was integral to the 1995 inquiry by the Royal Society for the Encouragement of Arts, Commerce and Manufactures into *Tomorrow’s Company* (RSA, 1995). It concluded that financial success for tomorrow’s company is dependent on the adoption of an *inclusive* approach to business, one which focuses on all stakeholder relationships, not just those with shareholders. This is akin to the notion of a stakeholder economy espoused by Tony Blair. Drawing on the ideas of such as Will Hutton (Hutton, 1995) and John Kay (Kay, 1993), the Blair vision is of an inclusive society and economy in which all social groups have a stake in the wellbeing of corporations and the national economy.

FOOTBALL’S STAKEHOLDERS

It can be argued that the stakeholder concept has greater relevance for football clubs than for more conventional business organisations because of the particular features of certain football club stakeholders, specifically their demands for accountability. Consideration is required in particular of a club’s direct or traditional community, namely its supporters, and of a wider notion of community encompassing people and groups affected by the existence of a football club within their environment. While this broader community is most commonly defined in terms of geography, it might also include religious or social dimensions.

Supporters as Stakeholders

The importance of supporters in this stakeholder model of football clubs has been recognised by several authors (Conn, 1997; King, 1997; Lee, 1999; Morrow, 1999). The traditional notion of a club’s supporters has been to view them as the club’s community. Perhaps the best analogy is with a church. A church is more than a physical building: it is a community of people who come together to worship, i.e. the worshippers become the church. Traditionally the relationship between a football team, the stadium and the supporters has been something similar: together they become the club.

As mentioned earlier it has been argued that the incorporation of football has been accompanied by a more shareholder-centric focus, with a greater emphasis being placed on the generation of profit and the maximisation of shareholder value. Along with these changes, it has become frequent to refer to supporters as customers. This notion of supporters as customers reduces football to free market economics: people will pay more for better services. The logic of the customer applies equally to ticket pricing, the price of merchandising or whatever. Taken to its rational conclusion the supporter as a customer even has the choice of which team to support. The customer gets what he pays for: the rights of supporters are restricted to the economic rights of non-purchase.

Supporters are obviously important to clubs in economic terms whether through purchasing season tickets, merchandising or whatever. However, there are strong arguments which suggest that the ‘customer’ description of the relationship between supporters and clubs is not adequate. In economic terms it is incomplete because it fails to consider the role played by the supporters in creating the product that they are asked to buy - i.e. football supporters are asked to buy what they themselves are helping to create, the spectacle of support (King, 1997). More importantly, in social and political terms, the concept of the customer fails to capture the idea of a supporter’s identity with a club. The sense of attachment between a supporter and his or her club is usually very strong. In addition, the relationship is usually a long-term relationship, although there is some evidence to suggest that changing club attachments may be increasing in the new generation of fans in the FA Premier League (SNCCFR, 1997). Nevertheless for most supporters supporting a football club is like membership of a particular church or faith - conversion is possible but happens fairly infrequently (Morrow, 1999, p. 168).

Stakeholder theory holds that the strategies adopted by managers should enable them to manage those stakeholder relationships which are most crucial to the corporation’s success (Roberts, 1998). Accordingly the management of this key relationship with supporters should be seen as crucial to the success of the football company.

The Community as a Stakeholder

In the UK professional sporting organisations have a deep-rooted identification with a particular city or region and hence community. The importance of clubs can be both economic and sentimental. Clubs can act as focal points for communities, something to rally around and bring people together, whether at times of success such as a Cup run, or at times of difficulty such as when a club is threatened by financial problems. Football clubs can also be a way of promoting a town or area. Even normally impassive banks are susceptible to the notion of football clubs as community resources, with evidence to suggest that lending decisions made by banks are not always made on commercial grounds (Morrow, 1997a).

The RSA Inquiry's vision of *Tomorrow's Company* (RSA, 1995) recognised the importance of a company's community.

> Tomorrow's company recognises its interdependence with the community in which it operates. It develops leadership strategies which strengthen both the climate for business success and the community itself.

The importance of community was also recognised in a football context in the report commissioned by the Football Association on 'Football – its Values, Finances and Reputation' (Smith, 1997). The report included a draft Code of Conduct for football clubs which identified two challenges in terms of a club's community: firstly, to demonstrate that it is a vital part of its community, and secondly, to remember that community role when making decisions.

On an ongoing basis, however, many clubs are remote from anything other than their direct community of supporters. Rather than the club being a source of leisure or recreational facilities within a community, many local residents are likely to view a football club as something which brings inconvenience to their normal life at every home match. This could range from traffic chaos through to uncivilised individual and group behaviour (and possibly also hooliganism) being brought closer to them than they would wish. Given the deep-rooted identification that exists between football clubs and their communities more could be done by clubs to adopt an inclusive approach to those communities. Many suggestions have been put forward as to how clubs can overcome their remoteness from the wider community, ranging from the use of training facilities as sports centres through to using the grounds for things like Mother and Toddler classes (Morrow, 1999, p. 193; Perryman, 1998). One model for football is the way in which churches have found an important role to play in communities, seven days a week. This is particularly significant given that most churches, unlike football clubs at present, have to deal with a dwindling direct community in terms of falling congregations.

A Critique of the Stakeholder Model

The stakeholder concept is appealing as it captures more fully the nature of football clubs and the groups who can affect or are affected by the achievement of the club's objectives. But the concept is not without its problems, chief of which centres on actually defining the objectives of football clubs. However, it is argued that this problem is also relevant in the wider corporate environment. Sternberg (1998) suggests that according to stakeholder theory there is only one legitimate organisational objective: balanced stakeholder benefits. However, this objective is accompanied by three problems: first, a lack of guidance as to how stakeholder groups should be selected, second, a failure to explain what should count as a benefit for the purposes of balancing benefits, and third, a lack of guidance on how the balance should be struck.

It has been argued that, prior to becoming Stock Exchange listed companies, football clubs could be assumed to have a unitary objective - playing success subject to a solvency constraint. For example, McMaster (1997) argues that everyone at a club from the board of directors to the players and coaching staff is interested in maximising their utility, a factor dependent to some extent on relative playing success. This view was not universally shared. In a paper on the operation of the retain and transfer system, Stewart (1986) argued that the existence of this system, which operated to restrict players' labour market mobility, was recognition of the fact that without it players would operate in a manner consistent with the pursuit of their own rather than their employers' objectives. Post-Bosman[1] players are now much freer to operate in a manner consistent with their own objectives rather than their employers' objectives. This, however, is no different from the situation that other organisations find themselves in.

In the new business of football the objective of supporters remains the attainment of football success. Contemporary football clubs, in particular those clubs which are listed on the Stock Exchange, face particular problems where other stakeholders have different, and often conflicting objectives. For example, where the club's shareholders are not drawn exclusively from the club's supporters, then the investment motives of at least some of these shareholders will be in terms of earning a financial return. As the following quote illustrates, whether the discussion is in terms of balancing the benefits to stakeholders or balancing the objectives of stakeholders, for Stock Exchange listed companies such as Manchester United, conflict is almost inevitable.

> As for the suggestion from City analysts that [Manchester] United should give its extra money [a cash surplus of £39m reported in its 1997 accounts] back to shareholders, Mitten's response [Andy Mitten, editor of *United We Stand*, a Manchester United supporters' fanzine] highlights the shareholder-supporter divide that runs through all stock market-quoted clubs.
> He says: 'These profits have come out of the fans' pockets, in the form of gate receipts, merchandising and television revenue, yet they end up going to some anonymous, faceless investor in the City? That's not right.'
> (City eyes United's cash hoard, *The Financial Times* 21 November 1997)

For Stock Exchange listed clubs such as Manchester United, the adoption of an inclusive or stakeholding approach may seem like little more than an idle dream. Nevertheless, various suggestions have been put forward to try to deal with this conflict and to encourage a more inclusive approach to business, such as the creation of some sort of regulatory structure which would protect the rights of supporter-stakeholders (Football Task Force, 1999; Hamil, 1999; Perryman, 1998). Perhaps of greater significance is the decision taken in April 1999 by the Secretary of State for Trade and Industry, Stephen Byers, to follow the advice of the Monopolies and Mergers Commission and reject BSkyB's bid for Manchester United (a bid supported by the directors but rejected by many stakeholder groups)[2], a decision which may prove to be a watershed for governance of football in the UK.

In this paper, however, the focus is on alternative types of ownership structure which may more fully capture the nature of a football club and its stakeholders. These alternative ownership structures are of relevance given that the philosophical antecedents of stakeholder theory reach back to the 19th Century, to the conceptions of the co-operative movement and mutuality (Clarke, 1998).

These alternative ownership structures will be discussed after a consideration of the case of Celtic plc.

THE CASE OF CELTIC PLC: A MODEL FOR CHANGE?

In this section governance, accountability and the ownership framework of contemporary football clubs will be considered using the example of Celtic plc. Celtic is a good example for many reasons: it is listed on the main market of the Stock Exchange, it is one of the largest British clubs in terms of market capitalisation, it has strong links with its community, it has a high number of supporter shareholders and most importantly of all it is undergoing changes to its ownership structure, with plans by the club's chairman to dispose of his majority holding in the club to supporters and season-book holders.

The official centenary history of Celtic, written by the Labour MP Brian Wilson, begins by noting that the club was established for reasons closely related to Irish identity and Catholic charity (Wilson, 1988, p. 1). Founded in 1888 by a Marist Brother, Brother Walfrid, the club's principal objective was to raise money to provide food for the poor in the East End of Glasgow. From these charitable origins Celtic went on to become the first British club to win the European Cup in 1967. To this day the club continues to have its roots deep in the Glasgow Irish community from whose descendants it still draws much of its support.

While conscious of the club's history and the importance to its community, the club's current directors have worked hard to present Celtic as a non-sectarian, Scottish institution. This is clear from the club's Social Mission statement which states that:

> Celtic Football Club is a Scottish football club with proud Irish links. The primary business of Celtic is as a football club. It is run on a professional basis with no political agenda. However, the Club has a wider role and the responsibility of being a major Scottish social institution promoting health, well being and social integration.

The club's charitable objectives and acknowledgement of its community role are explicitly referred to in its annual report.

> Celtic Football Club is committed to supporting the community and is proud today that it strives to honour the charitable objectives of the Club's founders.
> Celtic plc Annual Report year ended 30 June 1998 [3]

It is interesting to contrast the history of Celtic with that of another famous European football club, the Spanish club Barcelona. While Celtic was formed at least in part to help preserve the identity of the incoming Irish in Glasgow, by contrast Barcelona, although founded by foreigners (mostly British and Swiss residents), quickly assumed the main objectives of Catalan society (L'Elefant Blau, 1999). Nevertheless despite the different community focus of the two clubs, what is clear is that since their foundation over 100 years ago both clubs have continued to play an important role within their communities, a point that will be returned to later in this paper.

Fergus McCann became the owner of Celtic in March 1994, taking over a club which was beset with internal disputes and shareholder and supporter unrest and had been within eight minutes of being put into liquidation. He provided an immediate cash guarantee to stabilise the company's borrowings, following this up with a rights issue and other subscriptions which raised in aggregate over £12m for the company, eliminating bank and other major debts.

Part of McCann's strategy for turning around the ailing club was to make a public share issue. The issue took place in January 1995 and remains one of the most successful share issues ever made by a football club, raising £9.4m for the Club and creating 10,500 new shareholders. Despite January being generally recognised as a bad month for raising capital the issue was oversubscribed some 1.8 times. The minimum subscription was £620 per unit, each unit representing five ordinary and five preference shares, with the issue price of the ordinary shares being £64 per share. Since flotation the share price peaked at £525 per share on 6 January 1997. In September 1998 the club carried out a 100 for one share split. As at 8 April 1999 the shares were trading at £3.50 per share.

Since McCann's takeover Celtic has gone from strength to strength, both on and off the field. The club won its first Premier Division title in ten years in season 1997/98 while in season 1998/99 the team played in front of highest number of season ticket holders of any British club (52,543), making it the fifth best supported team in the world after Barcelona, Real Madrid, Inter Milan and Borussia Dortmund. These supporters are all seated in the largest modern football stadium in Britain (capacity 60,400), a project completed with no mortgage or government funding. Financially the club has reported substantial increases in turnover and profits over the last five years (see **Table 1**).

Table 1: Five year record (years ended 30 June)

	1994	1995	1996	1997	1998
	£000	£000	£000	£000	£000
Turnover	8,736	10,376	16,005	22,189	27,821
Profit from operations	282	669	2,735	5,899	5,094
(Loss)/Profit after tax	(1,404)	(401)	(1,013)	5,152	7,101
Stadium investment to date	8,694	23,335	34,690	37,011	46,764

Source: Celtic plc Annual Report year ended 30 June 1998

One distinctive factor about the Celtic share issue was that the shares were bought almost exclusively by supporters of the club, as opposed to city institutions. No formal research has been carried out into the reasons for the high take-up of shares by supporters. However, one reason put forward is access supporters had to loans from the Co-operative Bank, which it is argued helped ensure that it was investors who were looking to the long term who were successful in acquiring shares, rather than those seeking to make a quick profit (Morrow, 1997b). Other factors, related to the nature of the club's history and community, can also be put forward as possible explanations.

One driving force in the emergence of Celtic was the notion of mutual self-help.

> Though Celtic emerged as a result of a number of factors, one was this need to establish a welfare system for the Catholic Irish-Scots. Community pride was an important element in this decision. Spokesmen for the community explicitly discussed the need for them to show that they could look after themselves, to demonstrate that they were not a drain on the wider community's resources, and to stress their determination to make themselves part of Scottish society.
>
> (Finn, 1991, pp. 388-389).

In terms of the share issue, one interpretation of the willingness of supporters to subscribe for shares and the resultant exclusion of outside institutional shareholders is that it reflects continuing 'community pride' or the desire of the community to continue demonstrating their ability to 'look after themselves'[4]. Related to this is the link between Celtic (supporters) and the Catholic Church (Murray, 1984, p. 60; O'Hagan, 1999, p. 12). Bradley (1995, p. 61) found that an extraordinary 93% of Celtic supporters are Catholic. Furthermore a large majority of Celtic fans (61%) indicated that they attend church/mass at least once per week, a higher proportion than for the Catholic population as a whole and substantially higher than the figure reported at any other Scottish club (Bradley, 1995, p. 62). Given that evidence suggests that Catholics have shown greater loyalty to their church than members of other faiths (ONS, 1999, p. 220), it is possible that the club's supporters identified loyalty to Celtic (in terms of subscription for shares) as an extension of their loyalty to the Catholic Church.

As was mentioned previously, Celtic's traditional support was drawn from Irish immigrants in Glasgow, immigrants who for the most part were employed in unskilled, poorly paid jobs (Gallagher, 1987, p.61). Over time, however, this has changed with Murray (1998, p. 208) noting that 'by the 1960s the success of Scotland's Catholic football club was paralleled by the success of Scottish Catholics throughout the business and professional world'. In economic terms, therefore, many Celtic supporters would have been no less able than supporters of other clubs to afford to subscribe for shares in their club. Furthermore, football supporters in general are being drawn from a higher earnings background than was previously the case (SNCCFR, 1997).

Fergus McCann arrived at Celtic with a five-year plan, at the end of which he promised to sell his shareholding in the club and return to Bermuda. For some time he has indicated that his preferred option for selling his stake in the club has been to offer those shares for sale among the club's existing shareholders, season ticket holders and other investors interested in the long-term success of the club. At present ownership of the club is divided as shown in **Table 2**:

Table 2: Ownership of Celtic plc

Shareholder / Group	**Percentage holding**
Fergus McCann	50.3%
Supporters	40.0%
Dermot Desmond (non-executive director)	5.0%
John Keane (club director)	3.7%
Other directors and institutional investors	1.0%

Source: The Scotsman 11 November 1998

McCann's proposal is interesting, because it is the first time in the new business of football that supporters have been offered the opportunity to own a major British club in their own right (i.e. not beholden to a majority shareholder such as Fergus McCann, irrespective of whether that majority shareholder is also a supporter). This has implications with regard to the governance of Celtic, as two of the club's most important stakeholders, the supporters and the providers of capital, will become synonymous. It is also interesting because it almost certainly involves an unprecedented degree of altruism or philanthropy on the part of McCann. Recognised investment logic would indicate that the sale of a majority holding as a single stake would be worth far more to the seller than any sale which would involve a wide dispersal of that holding, given that the single buyer would be prepared to pay a premium for control.

Can such a transfer of shares to the supporters work? At present approximately 10,500 supporters already own shares in the club. If the argument is accepted that for most of these supporters the nature of this investment is essentially non-financial, i.e. it is of the nature of a community or an emotional investment (see also later section on *Why be a Stock Exchange listed company*?), then it is perhaps unlikely that many of these same supporters will wish to subscribe for *additional* shares. Unlike financial investors who gain from owning additional shares by receiving additional dividends and/or the benefit of share price movements, it might be argued that emotional investors do not receive additional benefits by holding additional shares, i.e. the emotional rights attached to owning say a hundred shares are no different or greater than those attached to owning one share. However, while 10,500 is a very large number of supporter-shareholders, nevertheless it equates to only approximately 20% of the club's season ticket holders, and to a much smaller percentage still of the club's world-wide supporter base. While the club may have its roots in Glasgow's Irish Catholic community, many of those roots have flourished far away from Glasgow.

The evidence of participation by the existing supporter-shareholders also bodes well for a successful transfer of McCann's shares. Despite being minority shareholders in a company controlled by its Chairman, attendance at the Celtic plc AGM in September 1998 was estimated at between 2,500 and 3,500, with the meeting lasting almost three hours (McLeman and Shand, 1999). It is also interesting to note that approximately 1600 (mostly small) shareholders attended Manchester United's 1998 AGM (Michie, 1998). By way of contrast, attendance at the AGMs of most public limited companies is very low. Such low attendances are explained by the fact that the diversified ownership prevalent in most UK companies, combined with the privileged access to information afforded to large institutional shareholders, means that there is little incentive for small shareholders to devote much attention to the monitoring and control of a company (Branston, Cowling, Duch Brown, Michie and Sugden, 1999; Jenkinson and Mayer, 1992). Given this, it can be argued that the AGM no longer provides a means for achieving shareholder democracy (Tricker, 1997). Attendance figures at the Celtic and Manchester United AGMs, however, somewhat conflict with this view of the role of the AGM. These levels of attendance are perhaps further evidence that supporter-shareholders do not think of themselves simply as minority owners of financial assets. Instead they see themselves as genuine stakeholders in the club, with rights both to receive information and to impart it to what they perceive as being their agents, namely the directors[5].

Some, however, were not in favour of a scheme which would allow the supporters the opportunity to own their own club. A high profile consortium, led by the former Celtic legend Kenny Dalglish and the former singer with the rock group Simple Minds Jim Kerr, and backed by BT Capital European Partners, put forward an alternative strategy to takeover Celtic, although no formal bid was made for McCann’s shares. Perhaps the most interesting thing about the consortium has been not its proposals, but instead the way in which its activities have been reported in the (football) press and media. While little analysis has taken place of McCann’s proposals, much of the media was quick to champion the consortium’s case, despite the fact that it would have seen shares being placed with city institutions and financiers. It is difficult to avoid the conclusion that much of the sports media were influenced more by the presence of high profile personalities in the consortium, than any serious attempt to consider the issue of ownership of Celtic. While the celebrities used their high profile to influence journalists and reporters, in turn those journalists and reporters used their column inches and broadcasts to influence the supporters. Much of the press reporting of the consortium’s bid was an example of what Rowe (1991, p. 88) describes as sports journalism ‘being embedded in, rather than illuminating its subject’.

WHY BE A STOCK EXCHANGE LISTED COMPANY?

In the light of the above comments it is worth asking one further question: should such a community resource be a Stock Exchange listed company at all? In other words, are there not more appropriate organisational forms for football clubs such as Celtic?

The Stock Exchange is usually described as acting as both a primary market and as a secondary market. In strict terms, the Exchange is itself a secondary market. However, its existence makes the issue of new securities, which can subsequently be traded, a more attractive proposition.

The ostensible rationale for football clubs seeking Stock Exchange listings has been to raise funds for ground developments, although other reasons put forward in prospectuses issued by British football clubs include the strengthening of playing squads, development of commercial operations, investment in youth training programmes, widening share ownership, widening supporter share ownership, providing increased liquidity to shareholders, reduction of borrowings and the provision of additional working capital. The need to fund stadium developments is also one of the reasons why German clubs have pressurised the Deutsche Fussball-Bund (German Football Federation) to allow them to seek market listings (Bowley, 1998). Football club flotations which have raised substantial capital for ground developments include those at Manchester United, Bolton Wanderers, Charlton Athletic and Preston. Many football clubs, however, floated in 1996-97, after their grounds had been redeveloped as a consequence of the Taylor Report, redevelopment for which they received substantial public money (Football Task Force, 1999).

Advocating a structure other than that of a Stock Exchange listed company obviously restricts the ability of clubs to raise funds from that source for future capital investment. For football clubs this may not be as great a problem as it might first appear. First, irrespective of how it was funded, ground redevelopment at most major clubs is now complete. Second, football clubs are independent local companies, that independence being required by the rules of the football authorities which restrict the extent to which any person or persons can own shares in more than one club at the same time. The presence of these rules thus restricts the possibility of football clubs making corporate acquisitions of the sort found in more conventional business activity (i.e. takeovers of similar businesses). Therefore, given the absence at most clubs of a need for funding for either large scale capital investment or for corporate acquisitions, one argument is that clubs should seek organisational forms which are free from the pressure and conflicts that arise out of a Stock Exchange listing and which will at the same time encourage them to operate on a sustainable financial basis.

Conn (1997, p. 172) suggests another reason for club flotations, namely allowing the clubs' directors to make large capital gains on their original investment in the clubs. Interestingly in the case of Celtic it can be argued that this is not the case. The share issue in January 1995 was not accompanied by a market listing and involved only the sale of new shares, with no reduction in the holdings of the principal shareholder Fergus McCann. Furthermore, it can be argued that his decision to offer his majority holding to supporters and season-book holders, rather than selling it as a majority shareholding, will earn him a lesser return than if he had taken the decision to sell his stake as a controlling shareholding to one bidder. However, it should also be noted that Mr McCann will still make a very healthy return on his investment. It is also worth remembering that the majority of shares in Celtic were bought up by its supporters, as opposed to those groups who might normally be expected to provide capital in the market setting, i.e. city institutions.

The share issue took place in January 1995. The shares were accepted for listing on AIM in September 1995, before becoming listed on the main market in September 1998. In its role as a secondary market the Stock Exchange exists to provide a market where shares can be traded throughout their lives. The level of trading that takes place in shares depends on many factors – the company, the time of the year, market sentiment etc. Nevertheless there is evidence that shares in several football clubs are very thinly traded (Morrow, 1999, pp. 98-103). In the case of Celtic plc, **Tables 3** and **4** indicate that there is very little evidence of trading taking place in its shares.

Table 3 shows the turnover in Celtic plc shares prior to the share split in September 1998. However, it must be noted that the figures have been adjusted for subsequent capital changes (i.e. these figures are as if the 100 for 1 share split that took place on 21 September 1998 had already taken place).

Table 3: Trading volume in Celtic plc shares (15 May 1997 - 16 September 1998)

Volume measure	Daily average	Details
Number of trades	4.67	This is the total number of times shares were traded in the day, as recorded by SEAQ.
Turnover by volume	7,037	This shows the number of shares traded for a stock on a particular day.
Turnover by volume as a percentage of number of shares in issue	0.02%	
Turnover by value	£18,459	Average daily trading volume multiplied by adjusted price (adjusted for subsequent capital actions)

Number of shares in issue 29,000,000

Source: Datastream, Company accounts

Notwithstanding that the figures in **Table 3** are reported after adjustment for subsequent capital actions, the level of trading was based on the share capital prior to the share split. Prior to the split there were only 290,000 shares in issue, of which just over half were held by Fergus McCann, with the quoted price of these shares being measured in hundreds of pounds. It could be argued, therefore, that the extremely low levels of trading reported in Celtic shares may have been caused by two factors: first, the high price of those shares, and second, the low number of shares in issue.

Prior to its admittance to the Official List the club carried out a 100 for 1 share split. One of the motives behind share splits is to increase the liquidity and marketability of the company's shares. **Table 4** shows the turnover in Celtic plc shares subsequent to the share split and the listing of Celtic shares on the Official List.

Table 4: Trading volume in Celtic plc shares (21 September 1998 – 8 April 1999)

Volume measure	Daily average
Number of bargains	14.1
Turnover by volume	14,717
Turnover by volume as a percentage of number of shares in issue	0.05%
Turnover by value	£46,522

Source: London Stock Exchange Electronic Data Services, Company accounts

As would be expected, higher turnover figures are reported for the latter period. However, the figures reported are still extremely low compared to other companies. In addition, higher trading might have been expected given the presence of a predatory consortium during that period. For comparative purposes, **Table 5** shows trading volume data for the same period for three other leisure companies, including the football sector's red chip stock, Manchester United.

Table 5: Trading volumes in leisure shares: daily averages (21 September 1998 – 8 April 1999)

	Number of trades	Turnover by volume	Turnover by volume as a percentage of number of shares in issue	Turnover by value
Manchester United	49.0	628,438	0.25%	£1,349,158
Rank	132.3	2,715,349	0.35%	£5,973,814
Ladbroke	268.1	5,812,489	0.49%	£12,883,610

Source: Datastream, Company accounts

Taken together, **Tables 3** and **4** indicate that shares in Celtic plc are extremely thinly traded. It has been suggested that the majority of supporters who bought shares in Celtic plc as a result of the public offer invested for community or emotional reasons rather than financial reasons, i.e. the supporters are interested in psychic income rather than financial income. Given this profile of shareholders, the turnover figures are unsurprising. The evidence does, however, further beg the question of why a company such as Celtic should be a Stock Exchange listed company at all.

OTHER ORGANISATIONAL FORMS

As was mentioned previously, the philosophical antecedents of stakeholder theory can be traced to the conceptions of the co-operative movement and mutuality. In this section the appropriateness of mutual and co-operative ownership structures to contemporary football clubs will be briefly considered.

(For a more detailed discussion of alternative ownership models see Bourke, 1999; Branston et al., 1999; Michie, 1999; Michie and Ramalingam, 1999).

Mutuality

Recent discussion on mutuality has primarily focused on its demise in the financial services sector, as witnessed by the high profile demutualisation of many building societies and more recently of life assurance providers such as Scottish Widows. While the demise of mutuality in the financial services sector mirrors earlier decline in other sectors such as the retail market, mutuals and co-operatives continue to provide a significant share of the services we rely on most such as childcare, insurance, food provision and agriculture (Leadbeater and Christie, 1999). Thus while the nature of the financial services industry may mean that mutuality is no longer appropriate for all providers in that market, equally there has been a realisation in other areas of activity that new forms of mutual structure may be appropriate where the primary aim of the product or activity is not to generate a financial return or where a community need is being met (Jaquiss, 2000). As Michie (1999) notes, structuring football clubs as mutual organisations seems to be particularly appropriate given that a club can be defined in economic terms (using the 1996 definition by Cornes and Sandler) as:

> …a voluntary group of individuals who derive mutual benefit from sharing one or more of the following: production costs, the members' characteristics, or a good characterised by excludable benefits (cited in Michie, 1999, p.17)

In a mutual business, ownership is achieved through active participation in the business. The members are the owners and have voting rights, but no tradeable financial asset exists. Many sporting clubs continue to be run as mutual organisations, with the Spanish club Barcelona being perhaps the most prominent example. Barcelona is a not-for-profit association owned by its 104,000 members. Any surplus made is reinvested directly into the club. Three other Spanish clubs, Real Madrid, Athletico Bilbao and Osasuna also operate as not-for-profit associations. Mutual sports organisations also have a long history in other countries, notably Germany, although it should be noted that German football clubs have recently received approval from the Deutsche Fussball-Bund (DFB) to allow them to drop their mutual status and become publicly listed companies. This change reflects an acceptance by the DFB of the German clubs' argument that they needed access to stock markets in order to allow them to compete on equal terms with their European rivals.

In the case of a football club, ownership would be conferred on the club's active supporters. With no outside shareholders, any surplus or profit made can be reinvested in the club. In this way one of the most prominent stakeholder conflicts which exists within listed football clubs, namely the tension between supporters and providers of financial capital, is effectively eliminated.

Michie and Ramalingam (1999) identify benefits of the mutual form, two of which are of particular relevance to football clubs: first, that mutuality is a more efficient way of dealing with agency problems, and second, that mutuality is a source of social welfare.

In a mutual, agency problems are resolved by the fact that as members can simply withdraw their funds this acts as a discipline on management. However, the loyalty of supporters makes the exercising of such ‘exit’ discipline unlikely (Michie and Ramalingam, 1999). The nature of football club investment, as discussed throughout this paper, and in particular as evidenced in the low levels of trading reported in shares in Celtic plc, backs up this view that supporters are unlikely to exercise such exit discipline (see also McMaster, 1997, and Morrow, 1999, p. 88). However, instead of exit discipline it is argued that what is described as the power of ‘voice’ could act as an equally rigorous discipline on management (Michie and Ramalingam, 1999). Evidence presented earlier in this paper as to the levels of attendance and participation at football club AGMs provides some credence for this argument[6]. The power of ‘voice’ at present, however, is limited within many modern football corporations. What mutual status may provide is an opportunity for the ‘voice’ to become more effective in the governance process by ensuring that it is heard within a more democratic structure[7].

With regard to social relationships, it is argued that mutual forms of ownership can be advantageous in that such businesses (building societies being the obvious example) are better able to sustain long term relationships with customers (Michie and Ramalingam, 1999). Given that the relationship between a supporter and his or her club is essentially an issue of identity and is therefore a long-term relationship, it can be argued that the mutual form of ownership is thus very appropriate for football clubs.

In practice, however, given the market capitalisation of many top clubs (including Celtic), it may be difficult to convert SE listed companies into mutuals. However, evidence presented in this paper suggests that many Celtic shareholders do not view their shareholding as a financial investment in any conventional sense. If other like-minded supporters were to subscribe for those shares presently held by Fergus McCann, then conversion to mutual status may not be entirely unrealistic. Furthermore, the exchange of shares for ownership or membership of their club is likely to be more palatable to football club shareholders than to conventional shareholders: altruism is not the sole preserve of Fergus McCann. Nevertheless, the practical difficulties of such a conversion, not least how it would be financed, should not be underestimated - the best route to becoming a mutual is unlikely to begin at a plc structure[8].

An alternative and perhaps more practicable way of allowing supporters to exercise their ‘voice’ is through part of a club’s share capital being held by a Trust on behalf of the supporters. Such trusts already exist at Bournemouth and Northampton Town[9]. Trusts preserve the principle of mutuality as they provide for the sharing of the ownership of property and operate on a one-member one-vote basis. One reaction to the decision by the Secretary of State for Trade and Industry to block BSkyB’s bid for Manchester United was an announcement by the campaign group *Supporters United Against Murdoch (SUAM)* that it intended to seek a meeting with the Manchester United plc board to discuss the possibility of setting up some kind of trust to combine the holding of individual fans (Crick, 1999). To that end SUAM also advised its members to go out and buy as many shares in the club as they can.

Co-operatives

An alternative organisational form, also based on the principle of mutuality, is that of the co-operative. A co-operative can be defined as ‘an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise’ (ICA, 1996). Co-operatives are characterised by:

- Mutuality - conduct of the business must be for the mutual benefit of the members, with the benefits they receive deriving mainly from their participation in the business
- The principle of one member, one vote: control of the co-operative must be vested in the members equally
- Fair distribution of profits: profits, if distributable, will be distributed in relation to the extent members have either traded with the co-operative or taken part in its business.

The aim of a co-operative is to ensure a genuine community interest among the co-operative’s members, with that interest being based on something deeper than the amount of financial capital they have placed in that organisation (Bourke, 1999). The nature and importance of a football club’s community (both direct and indirect) was discussed earlier in this paper. A club’s community is vital to its future success. Adoption of a co-operative structure would introduce democracy into football clubs, i.e. it would provide all of a club’s members (or stakeholders) with a say in the running of the club. Thus it would ensure that those who are most important to the club’s future long-term success, its supporters and also its players, are actively involved in running their club and planning its future. Interestingly, sports (including professional football clubs) were identified in Tuck’s 1981 typology of industries and services most suitable for co-operative development (cited in Clarke, 1984).

It is important to highlight the fact that running a football club as a co-operative does not mean that it would not be run as a business. The important distinction between a co-operative and a non-cooperative is what happens to the profits made by that business: while profits in a non-cooperative would be distributed to shareholders, in a co-operative where the objectives of the members are defined in terms of footballing objectives, those profits would be retained in the co-operative.

The experience of plc co-operatives in the Irish dairy industry may be informative for football clubs. One argument in favour of Stock Exchange listing as opposed to co-operative or mutual status is that it makes it easier to raise capital. Faced with the problem of requiring to raise capital to fund modernisation and expansion in a competitive market place, while wishing also to maintain co-operative ownership by their farmer-suppliers, the dairy co-operatives adopted a hybrid structure of co-operative plc status. This involved the creation of Stock Exchange quoted subsidiaries with full plc status but which remained under the control of the members of the co-operatives (Bourke, 1999). The challenge for football clubs would be to reach the same point but from the other direction, i.e. to move from a corporate structure in which control is vested in the hands of one or a few individuals or institutional shareholders, to one which allows the club's supporters (who are equivalent to the farmers) to assume control. However, as was mentioned in the discussion on mutuality, the practical difficulties of such a conversion, not least its financing, should not be underestimated.

CONCLUSION

Football clubs are classic stakeholder organisations. Various groups other than a club's shareholders believe that *de facto* they have ownership rights in their club. Conflicts between stakeholders, however, are likely, particularly between supporters (who may or may not also be shareholders) whose objectives are essentially in terms of football and shareholders (professional investors) who to a large extent are motivated by the prospect of a financial return. Such conflicts have been apparent at several clubs, most noticeably at Manchester United and Newcastle United, and might be thought of as inevitable where a club becomes a Stock Exchange listed company.

In this paper, however, the case of Stock Exchange listed Celtic plc has been used, not to demonstrate conflict between stakeholders, but instead to question the appropriateness of market listing for contemporary football clubs. In the case of Celtic there already exists a high degree of overlap between the stakeholder groups of supporters and shareholders, with the potential to further increase this overlap in the near future. One consequence arising out of this ownership framework is that very little trading takes place in shares in Celtic plc. Although this lack of market activity is unsurprising, it provides further evidence that Stock Exchange listed companies are not the most appropriate vehicles for contemporary stakeholder-focused football clubs. What is required for football clubs is a structure which more fully captures both the economic and the social aspects of contemporary football clubs and allows for a more inclusive concept of ownership. While mutual and co-operative structures have much to commend them, given the market value of many top clubs the most practicable way forward is likely to involve the formation of supporters' trusts operating on mutual principles within the existing corporate structure.

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[1] Restrictions on the mobility of football players arising out of the operation of the football transfer system were challenged by a Belgian player, Jean Marc Bosman, in an action raised against his club and the footballing authorities. In a landmark ruling the Court of Justice of the European Communities held that the provision that out-of-contract football players could only

move between two clubs if compensation was paid to the selling club was incompatible with Article 48 of the EC Treaty (CJEC, 1995). (For a more detailed consideration of the case, see Griffith-Jones, 1997, pp. 126-133 or Morris, Morrow and Spink, 1996.)

[2] See Michie (1998) for evidence of stakeholder dissatisfaction with the bid.

[3] During the year ended 30 June 1998, the Celtic Charity Fund raised over £120,000 to be distributed among worthy causes (Celtic plc 1998 Annual Report).

[4] The link between the incoming Irish and the idea of mutual self-help evidences itself elsewhere. For example, Donnelly and Haggert (1997) identify the influence of the Irish in Scotland as being one reason why the Credit Union movement has been so much more successful in Scotland than in England and Wales. In terms of political beliefs, evidence also suggests that Celtic fans continue to be supporters of the Labour Party to a significantly larger extent than fans of any other Scottish club (Bradley, 1995, p. 69).

[5] The determination of small supporter-shareholders to participate in the operation of their club was well illustrated at the Celtic plc 1998 AGM. Notwithstanding the existence of an individual majority shareholder, numerous shareholders spoke against an apparently uncontroversial resolution (common in most public limited companies) that the directors should be allowed to disapply statutory pre-emption rights in respect of allotment of shares for cash, before forcing a vote on the issue.

[6] The importance of ‘voice’ was evident at the Celtic plc 1998 AGM, attended by approximately 2500 shareholders (McLeman and Shand, 1998). Reports in the Scottish broadsheet press included descriptions such as ‘a tempestuous agm’, ‘sustained abuse’, ‘McCann who was also the subject of barracking as well as receiving a standing ovation’, ‘pandemonium at Celtic Park’ and ‘Democracy … in football is not a pretty sight’. (See for example ‘Brown defies calls to quit’, ‘McCann and Brown cast as villains in Parkhead melodrama’, *The Scotsman,* 15 September 1998).

[7] Mutuality does not, however, guarantee democracy. For example, L’Elefant Blau, an organisation set up by members of FC Barcelona, has as its primary goal the democratisation of FC Barcelona. Among other things it is critical of the process by which the members entitled to attend the Assembly of Delegates (the highest government body of the club) are selected, and of the accountability of the club’s directors to its members (L’Elefant Blau, 1999).

[8] For a discussion on the feasibility of applying the mutual concept in practice, see Michie (1999, p. 19).

[9] At the 1999 Labour Party conference the Secretary of State for Culture, Media and Sport, the Rt. Hon. Chris Smith MP announced a Government initiative to help give supporters a say in the running of their football clubs by forming mutual trusts. *Supporters Direct* was subsequently launched in January 2000 to provide assistance to supporters who wish to form trusts.

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