# "It's an old saying – but you judge it all by the league table" [1]

## - Impression management in football club financial reporting

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## ABSTRACT

The paper investigates the selection of accounting policies for intangible assets in the Italian football industry, focusing on the effects of the so-called *salva calcio* decree. Introduced by the Italian government, the decree effectively permitted clubs to amortise the asset of players' registration rights over an arbitrary time period of ten years rather than over the length of players' contracts, thus improving clubs' reported financial position and performance. While adoption of the *salva calcio* decree had no direct cash flow effect, it had indirect economic consequences. It is argued that adoption of this policy by some Italian clubs was motivated by a form of legitimacy theory, whereby clubs sought to legitimise their financial position and performance with a view to meeting the licensing demands of football governing bodies. It also highlights the difficulty stakeholders face when trying to understand a football club's financial results. Far from being neutral, figures in financial statements are value-laden.

# INTRODUCTION

In several European countries, seemingly endless words are spoken and written about football, football matches and football clubs. In the UK, the deregulation of the television and radio market place and the subsequent introduction of satellite television companies like Sky have resulted in a considerable increase in media coverage; not simply live coverage of matches but also a substantial volume of talk-based content. The longest standing relationship of football clubs with any form of the media is with newspapers (Vamplew, 1988). Football remains an important element of print media content and discourse (Crolley and Hand, 2002), and in recent years most UK newspapers, broadsheet and tabloid, have extended their sports coverage (Davies, 2005; Morrow, 2003).

Elsewhere the coverage is even more extensive. Nowhere in Europe, arguably, are people more passionate about football than in Italy. According to Baroncelli & Lago (2006), 44 million Italians are interested in the game. Hours of Italian television are dedicated to football each week, not just to matches but also to discussion programmes and documentaries (Jones, 2003). The 25 television programmes with the highest audiences are football related (Baroncelli & Lago, 2006). A similar situation exists in the print media. The country has three daily newspapers dedicated solely to sport, *La Gazzetta dello Sport, Corriere dello Sport* and *Tutto Sport* which each devote about 70% of their space to football. These titles are read by around 5.8 million people while it is estimated that about 20 million people read about football in newspapers

each day (Baroncelli & Lago, 2006; Lo Giudice, 2002). But for all these words, written and spoken, in a well known phrase, ‘at the end of the day football is about goals scored and points won’. Irrespective of opinions, football performance can be captured precisely by figures.

## THE NATURE AND PURPOSE OF ACCOUNTING

On the face of it there may seem to be clear parallels between measuring football performance and measuring financial performance. An oft-quoted definition of accounting describes it as “the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of that information” (AAA, 1966, p.1). Influential orthodoxy has represented accounting as a form of financial cartography (Solomons, 1978); a technical and neutral process of measuring economic activity and reporting it to users (or more accurately to investors), a process deemed to be in the public interest (Neu & Cameron, 1998). A different perspective is offered by critical accounting theorists, who argue that far from being neutral, accounting values are value-laden, bound up in a contested view of what is in the public interest (Gallhofer & Haslam, 2002). Part of this contextualisation is the recognition that accounting is not a science, but a human endeavour (Arrington & Puxty, 1991; Francis, 1990). In this perspective accounting is seen as a social and political practice, intrinsic to, and constitutive of, social relations (Laughlin, 1987). Acceptance that accounting is a social practice allows us to understand the consequences that it has in society.

## ACCOUNTING CONCEPTS: PROFIT NOT CASH

Goals scored are a matter of factual record. One important financial measure which ostensibly is a matter of fact is cash: arguably accounting's parallel to the 'its goals that count' cliché is the saying that 'cash is king'[2]. Yet despite its fundamental importance to companies – all organisations need cash to survive – historically cash flow has not been focused on as a measure of financial performance and is given little emphasis in the annual reports and financial statements of companies. Instead the key measure of performance is profit. In general terms, profit stands for the difference between revenue and costs. But profit is an artificial concept: different measures of profit can be validly measured or reported for an organisation, dependent on which accounting concepts or theories are adopted; on which accounting standards are applied and how; even on who the financial statements are prepared for. For example, while UK and US financial reporting has always been shareholder oriented, in others countries like Italy or Germany the focus was on the tax authorities or creditors.

Historically different accounting rules and standards have applied in different countries and hence quite different measures of profit have been reported for the same organisation under different accounting systems. But in recent years, there have been moves towards standardisation and harmonisation of standards and there now exists a set of International Financial Reporting Standards, authoritative statements of how particular types of transactions and events

should be reflected in financial statements, to be adopted by major companies throughout the world.

Profit can also be affected by creative accounting. This occurs where accountants use their knowledge of accounting rules to manipulate the figures reported in the financial statements of a company (Amat, Blake, & Dowds, 1999). Although not illegal, the aim is to provide a misleading or illusory impression of a company's position or performance, taking advantage of existing rules and/or ignoring some or all of them (Naser, 1993). Traditionally the Anglo Saxon system of accounting, which demanded flexibility and professional judgement in accounting policy choice, was seen as giving rise to more scope for creative accounting than the more codified or rule-based system prevalent in countries like France, Germany, Italy and Spain. One response to creative accounting by standard setters in the UK and elsewhere has been to issue increasingly detailed standards. But as Blake, Bond, Amat, & Oliveras (2000) demonstrate, even in countries relying on rule-based systems like Spain, there has been a growth in creative accounting.

An important aspect of financial statements is narrative reporting. Worldwide, narrative communication in annual reports is considered as the critical factor in achieving the desired improvement in the quality of corporate reporting and it is in this area that regulators are focusing their attention (Beattie, McInnes, & Fearnley, 2004). Free from statutory restrictions, narrative disclosure provides an opportunity to communicate information which is not captured in the financial statements; information which may assist users more fully to

understand the nature of a company and its future potential and which may help improve accountability.

From a directors' perspective, narrative disclosure in annual reports may be favoured over other forms of textually-mediated communication because it is directed towards the organisation's stakeholders and because its proximity to the financial statements gives it a form of credibility by association or legitimacy, something not afforded to other forms of organisational communication (Neu, Warsame, & Pedwell, 1998). But some have argued that accounting narratives in annual reports are little more than public relations documents with little or no substantive content (McConnell, Haslem, & Gibson, 1986). A study by Morrow (2005) of narrative reporting in the British football industry produced results consistent with previous studies in other industries, with indications of selectivity in disclosure and of image management. Narrative disclosure on a variety of variables was highly skewed towards positive commentary, with the emphasis on good news such as improved television deals but with little or no prominence given to equally important but less agreeable information such as disproportionate increases in wages and salary costs.

Securities market efficiency has important implications for financial reporting. Those who argue that stock markets exhibit a semi-strong form of market efficiency where prices reflect all publicly available information, assert that it is pointless for companies to manipulate accounting methods or disclosure because if the information is publicly disclosed, the market is not deceived by

these tactics. Efficiency implies that it is the information content of disclosure, not the form of disclosure itself that is valued by the market (Scott, 2003). But while security market efficiency has largely been accepted by financial reporting standard setting bodies it applies only to the stock market (Kam, 1990). This is particularly significant in the football industry where few clubs are listed on stock exchanges and where there is little evidence of active trading in listed shares (Ferreira & Duque, 2004; Morrow, 2000). Arguably the stakeholder concept is of greater relevance in the football industry, given the demands of some football club stakeholders for accountability, including financial accountability (Michie, 2000; Morrow, 2000).

## ACCOUNTING FOR FOOTBALL PLAYERS AND ACCOUNTING POLICY CHOICE

The historical roots of the football transfer system can be traced to a clause inserted in the regulations of the Football Association (FA) in 1885 which required all players to be registered with the FA. The clause, designed to protect smaller clubs by preventing players from club-hopping, instead resulted in the creation of the transfer market as the registration became something to be traded in its own right (Miller, 1993). The basic principle is that clubs acquire the rights to hold the registration of a player. If another club wishes to acquire that player during the period of his contract a fee is usually required to facilitate the transfer of that registration. At the end of the player's contract, no fee is required to transfer the registration.

The financial difficulties faced by clubs throughout Europe in recent years have resulted in a decline in transfer market activity. In England (see Figure 1), the apparent buoyancy in the market is largely due to the behaviour of one club, Chelsea. Funded by the Russian billionaire, Roman Abramovich, Chelsea's 2003/04 transfer spending of £175m (€254m) accounted for 45% of total transfer spending by English Premiership clubs (Deloitte & Touche, 2005a).

[Figure 1 goes here]

Gross transfer spending by clubs in the English Premiership is around double that of clubs in each of the Italian Serie A and Spanish Primera Liga, and around three times greater than clubs in the top division in each of France and Germany (Deloitte & Touche, 2005a). The decline in transfer activity is very apparent in Italy (see Figure 2).

[Figure 2 goes here]

In the UK, historically transfer fees paid and received were treated as income and expenditure in clubs' profit and loss accounts (Morrow, 1999). The rationale for this policy derived from uncertainty as to whether holding a player's registration gave a club sufficient control over that player and whether the future benefits were sufficiently certain given the nature of sporting performance (Morrow, 1996; Rowbottom, 2002).

The first club to adopt an alternative treatment was Tottenham Hotspur. In its accounts for the year ended 31 May 1989 it recorded the cost of players'

registrations as intangible assets on the balance sheet. By the mid 1990s, eighteen British clubs included player values on the balance sheet (Morrow, 1999). The most common practice adopted was that the acquisition cost less an estimated residual value was amortised over the length of an individual player's contract. One consequence of the landmark Bosman case heard by the European Court of Justice in 1995 was that clubs were no longer guaranteed a transfer fee for players who had reached the end of their contracts (Morrow, 1999). As a result clubs which had adopted a capitalisation policy for players' registrations were obliged to either write off the full cost of acquisition over the length of a player's contract or alternatively revert to expensing transfer fees.

The existence of an environment where choices were discretionary and the effects upon the financial statements were material allowed Rowbottom (2002) to study accounting policy choice in the British football industry. He argued that policy selection was constrained and influenced by capital market expectations, consistent with legitimacy theory whereby managers seek to legitimise club finances. The paper also argued that tax costs could act as a motivation, with clubs susceptible to paying corporation tax being more likely to adopt an expense policy in the hope that the financial reporting policy would also be accepted for taxation purposes and hence would act to reduce the tax liability.

The introduction of FRS 10 by the Accounting Standards Board (ASB) in December 1997 removed the accounting policy choice for British clubs,

requiring them to follow the capitalisation and amortisation approach in respect of players acquired through the transfer market. Home-grown players are not recognised as assets as there is no past transaction or event, i.e. no purchase cost. Similar accounting policies exist in most other European countries (Deloitte & Touche, 1999), including Spain (Garcia & Rodriguez, 2003), and the International Accounting Standard (IAS 38) also requires the capitalisation of purchased intangible assets. While the UEFA Club Licensing System allows clubs to adopt either the capitalisation or expensing policy, if the former is adopted the capitalised cost must be written off over the length of the player's contract (UEFA, 2002). Furthermore clubs are required to carry out an annual impairment test. If the recoverable amount for an individual player is lower than the carrying amount on the balance sheet, the carrying amount must be adjusted to the recoverable amount and the adjustment charged to the profit and loss account as an impairment cost (UEFA, 2002).

The appropriateness of requiring football clubs to recognise players acquired via the transfer market as assets has been questioned by Amir & Livne (2005), who argue that contracts (i.e. the players) are too uncertain to consistently meet the asset recognition criteria. Moreover their analysis, based on a sample of 58 football companies over the period 1990-2001, indicates that the rate of decline in the value of player contracts is greater than the rate of amortisation and impairment (Amir & Livne, 2005).

## RESEARCH AIM AND OBJECTIVE

The paper investigates the use of intangible asset accounting and accounting policy choice in the Italian football industry, focusing on the *salva calcio* decree. Introduced by the Italian government, the decree effectively permitted Italian clubs to amortise the asset of players' registration rights over an arbitrary time period of ten years rather than over the length of a player's contract, thus improving their reported financial position and performance. The aim of the paper is to analyse first, the rationale for the decree's introduction, second, the motivations relevant to its adoption by clubs and third, the consequences of its adoption for users of Italian clubs' financial statements.

## IMPRESSION MANAGEMENT

### Financial reporting and taxation in Italian professional sport

The legal framework regulating Italian professional sport is set out in Law 91 (1981), with taxation and financial issues set out in Article 15 therein (Colucci, 2004). This law was essentially a law for football: effectively transforming football societies (or clubs) into companies, resulting in football clubs being treated in the same way as other business with regard to accounting and taxation issues (Bianchi & Corrado, 2004).

One important difference, however, is the treatment of a football club's players. Similar to the situation in other countries, a contract binding a professional football player to a certain club is considered an intangible asset. The asset is assumed to provide benefits over its useful life (the period of the contract) and hence the tax benefits are assumed to be released over the same time period (Article 103 of the Italian Single Text on Income Tax (TUIR)). The view of the Ministry of Finance is that these assets are to be considered inheritable assets, liable to generate capital gains. Thus, the price paid for the purchase of a player constitutes an intangible asset that can be redeemed so long as the source of income exists – in this case, for the remaining duration of the contract. This interpretation has consequences both in terms of allowances that can be granted to clubs (e.g. tax credit for enterprises operating in the South of Italy) and, where under contract players are transferred, in calculating liability under IRAP (Italian regional business taxation) (Colucci, 2004).

On November 27, 2001, a new accounting standard setter - the Italian Accounting Committee (Organismo Italiano di Contabilità - OIC) - was established in Italy. Its functions include issuing accounting principles for use in the preparation of financial statements for which international accounting principles are not applicable and providing support in connection with the application of the international accounting principles in Italy (Deloitte & Touche, 2005b). The OIC does not, however, have any mandatory power: while it can propose new measures it is for the legislative bodies to accept them (correspondence with the OIC, 2005). Moreover the Italian government

can effectively bypass the OIC, a point illustrated by the introduction of the *salva calcio* decree.

## The *Salva Calcio* decree

At the end of 2002 Italy adopted Decree Law 282 of 24 December 2002, which became Law No. 27 of 21 February 2003 (the so-called *salva calcio law*), containing measures on taxation and accounting rules for professional sports clubs (*Official Journal,* No. 44, 22 February 2003). In practical terms this law permitted clubs to lengthen the period over which the intangible asset of binding player contracts was able to be amortised, from the length of the contract to ten years. More precisely, in accounting terms, the unamortized cost or carrying value of the intangible asset of players' contracts was to be written down to a realizable value certified by an expert. This figure continued to be written off over the length of the players' contracts. The difference between the unamortized cost or carrying value prior to the write down and the expert's realizable value is not written off an expense in the profit and loss account, but instead is transferred to a new intangible asset, the *salva calcio* asset, D.L. 282. This asset is then amortised over a ten year period.

The decree was adopted by fifteen clubs; seven in Serie A (including Internazionale, Lazio, Milan and Roma) and eight in Serie B. Taken together the application of the decree in these four major Serie A clubs resulted in approximately €1bn being transferred from players' registration rights to the *salva calcio* asset (Laudisa, 2005). This is illustrated in Figure 3.

[Figure 3 goes here]

An example of the application of the decree is set out in Exhibit 1.

[Exhibit 1 goes here]

At Lazio's 2002 year end, the carrying value of the intangible asset of players' registrations on the balance sheet was €272.2m. This figure was written down to a realizable value certified by an expert, with the difference between the old and new carrying value (€213m) being transferred to an new intangible asset (oneri pluriennali Ex D.L. 282/2002). The new asset is then amortized in the profit and loss account on a straight line basis over ten years (€21.3m per annum); the original asset (as adjusted for the acquisition and sale of player assets) continues to be written off over the contractual period of the players. The impact of this treatment on the company's reported profit/loss is marked: the amortisation charged in the profit and loss account fell from €75.5m in 2002 to €37.7m (€16.4 + €21.3) in 2003 thus reducing the company's reported losses.

Both aspects of the law put Italian clubs in conflict with the European Commission. The commission took the view that the decree did not comply with the Fourth (78/660/EEC) and Seventh 83/349/EEC) Council Directives (so-called Accounting Directives) in two areas. First, where a player's contract is treated as an intangible asset, it should be amortised over the length of that contract. Second, any value attributed to fixed assets must be adjusted downwards to their realizable value on the date the accounts are drawn up if it

is expected that the reduction in value is permanent. The Commission also took the view that financial statements presented in such a manner cannot show a true and fair view and so depart from the prudence principle of the 4th Accounting Directive. The European Commission asked Italy for more information on some aspects of the 2003 Financial Law and threatened to refer the matter to the European Court of Justice unless it received a satisfactory response. Moreover the Commission was also concerned that the decree was in breach of Article 87 of the EC Treaty, effectively that clubs were receiving state aid. As a result distortion of competition and adverse effects on trade between Member States arises, as some activities engaged in by football clubs like the acquisition of players and the sale of broadcasting rights for European competitions such as the Champions' League take place in international markets (Colucci, 2004). Following commitments given by the Italian authorities that no tax advantages would accrue to clubs from the decree, the European Commission accepted that the measures did not constitute state aid (Euractiv, 2005). However, the infringement procedure for violation of the EU accounting Directives remained open[3].

The law was introduced by the government, in part in response to pressure from the clubs and the league, as a way of dealing with the clubs' financial difficulties (Bianchi & Corrado, 2004; Levante, 2005; Liguori & Napolitano, 2003). Over a number of years, many prominent Italian clubs had invested heavily in player purchases and related salaries. However, in the most recent years revenues had failed to grow at the same pace, such that at the end of season 2003/04, Serie A clubs reported a global operating loss of €948m

(Paterson, 2004), with total debts of approximately €2.5bn (Deloitte & Touche, 2004). Without the *salva calcio* decree there was a high risk that several major clubs would have become technically insolvent – where their liabilities exceed their assets - as they were not in a position to account fully for the required amortisation in the short term.

The Italian clubs' argument for the introduction of the *salva calcio* decree was that the downturn in income was not foreseeable and that hence their asset values were now overstated in view of the new economic conditions. Thus, the argument runs, what was required was a rebasing of the financial statements, with the adjustment taking place over a number of years rather than immediately as prudence would dictate under customary accounting practice.

An alternative argument is that the decree simply gave legal support to impression management; permitting clubs to use financial reporting to mask their inadequate decision making and financial management as they continue to make investments in players (acquisition and salary costs) that were unaffordable in the medium to long term. As noted previously, normal accounting practice requires the intangible asset of players' registration rights to be amortised over the length of each player's contract. Inevitably if a club continues annually to make a net investment in players, then amortisation will continue to rise. Beyond this inescapable arithmetic, however, it has also been suggested (see, for example, Baroncelli and Lago, 2006; Baldini, 2004) that some clubs have systematically abused the transfer system, often engaging in reciprocal transfers at inflated fees, as a way of boosting the asset value on the

balance sheet. According to Levante (2005) these types of fictitious money transfers have taken place for almost a decade. The possibility that clubs have engaged in artificial transfers or recorded transfers at inflated fees are issues which are to be scrutinized in an inquiry being conducted by Italy's Anitrust authority (Virgo, 2005). An illustration of this type of behaviour is set out in Exhibit 2.

[Exhibit 2 goes here]

What happens in this type of example is that clubs inflate the purchase price of the players acquired. In the short term this boosts the reported figure for balance sheet assets. When the player nears the end of his contract another reciprocal transaction is initiated to strengthen the balance sheet. The focus on the balance sheet is important as one aspect of the licensing criteria of the FIGC (Federazione Italiana Giuoco Calcio) – the body charged with licensing clubs to take part in Italian professional football competitions - is concerned with balance sheet ratios.

One consequence of this type of behaviour is continuing growth in the carrying value of the intangible asset; another is an increase in the amortisation charge. In this scenario a problem arises when the costs (amortisation) grow so large that a company has insufficient profits or turnover against which to write them off; precisely the situation many Italian clubs were in prior to the introduction of the *salva calcio* decree.

**Discussion**

> "… the law 'save soccer', after all, saves absolutely nothing…" (Baldini, 2004).

The decree has no direct cash effect for the clubs: it is simply an accounting or book entry; deferring the recognition of costs from an earlier period to a later period. But, adoption of the decree does permit clubs to publish accounts which underestimate their true costs in a given year, hide real losses on assets (intangible) and hence give a misleading picture or impression to users of financial statements. The reaction of investors to the adoption of the *salva calcio* decree as a form of impression management was not tested in this study. Leaving aside theoretical considerations as to the violation of efficient market theory, in this case the transparent and public nature of the *salva calcio* decree makes it improbable that shareholders would be influenced by its adoption as an accounting policy. Furthermore the concentrated ownership structure found in many Italian football clubs, where there is often little evidence of separation between ownership and control, makes this an improbable motivation (Morrow, 2003). Of greater significance is the fact that football club financial statements are of relevance and interest to users other than shareholders, notably governing bodies, supporters and the wider community. If those financial statements are sites of impression management and/or creative accounting then at the very least this reduces the reliability of financial statements and lessens their role in improving governance in football and in providing accountability to stakeholders.

More pertinently adoption of the policy may be interpreted as being motivated by a form of legitimacy theory. Here owners seek to legitimise clubs' finances not with a view in to impressing the capital market place but instead to ensure validation by a different audience, namely the Italian Football Association, the FIGC. It acts as the licensing body for professional football in Italy as well as acting as the licensor for the UEFA club licensing system (UEFA, 2002). To receive a licence to take part in professional football in Italy, clubs are expected to meet certain financial criteria, these being based upon figures reported in the financial statements (FIGC, 2006). The financial difficulties faced by Italian clubs in recent years have resulted in a less rigorous application of the licensing rules. For example, the regulation which requires that a club's revenue should be three times greater than its debts can not be met by most clubs. Hence the FIGC has relied on debt criteria based upon asset figures taken from the balance sheet (Levante, 2005). More importantly minimum required ratios relating accounting net worth to the net book value of players' registrations and to total assets have been taken out. Instead the required ratios are now set by the FIGC based upon the advice of Co.VI.So.C., the football clubs' watchdog committee. In practice this means that the ratios are set after the financial statements have been received. With regard to the treatment of football players' registrations, all recognition policies increase fixed assets in the balance sheet (Rowbottom, 2002). Adoption of the *salva calcio* decree also therefore acts as an upward pressure on the figures recognised in the balance sheet for fixed assets due to the lower amortisation charge, thus making it easier to report satisfactory balance sheet ratios.

*Salva calcio* does have indirect economic consequences by helping legitimise the club's licence application, as this is fundamental to clubs being able to fulfil fixtures, to generate revenue and to employ players. But it may also promote dysfunctional behaviour, encouraging clubs to trade at a level which is not sustainable in the long term. For example, receipt of a licence may encourage poorly managed clubs to offer contracts to players, the terms of which the club can not be certain of fulfilling in the medium to long term. In this sense the decree may be interpreted as giving a club a short term competitive advantage on the field of play.

Two clubs which did not taken advantage of the decree were Juventus and Bologna. Bologna's president is on record expressing his dissatisfaction with the principle of offering preferential financial or fiscal treatment to football clubs, drawing attention in particular to what he sees as the competitive advantage it can offer clubs (La Repubblica, 2005). Beyond Italy, prior to the introduction of *salva calcio*, other countries, most notably France, have claimed that the less restrictive financial controls in place in Italy have meant that clubs are not competing on a level financial playing field in UEFA competitions (Deloitte & Touche, 2004).

As mentioned the FIGC also acts as the licensor for the UEFA Club Licensing System. UEFA has stipulated that all clubs expecting to participate in its Europe-wide competitions must meet specified criteria. From 2004-05 clubs required to have audited annual financial statements, no overdue payments in respect of transfer activities and no overdue payments to employees (including

taxes and national insurance). Additional criteria are to be imposed from 2006/07 as follows:

- A liquidity plan demonstrating a club's ability to meet liquidity needs for the license period;
- Declaration of liquidity shortfalls as soon as the licensee becomes aware of the eventuality;
- regular monitoring by the licensor (i.e. in Italy, the FIGC) together with action plans;
- Notification of negative deviations from the pre-announced budgeted profit and loss account (UEFA, 2002).

Furthermore, at a date to be decided, UEFA will move to a general requirement of proof of positive equity.

The effectiveness of the club licence system will depend on how rigorously it is applied by licensors and subsequently by UEFA. But as Lago, Simmons, & Szymanski (2006) observe, the financial difficulties of so many of the large Italian clubs may test UEFA's resolve to exclude major clubs from its competitions. To date the evidence is mixed. For example, while the FIGC awarded Lazio a UEFA licence for season 2004-05 (Radnedge, 2004), it initially refused that club a licence for season 2005-06 (Radnedge, 2005). However, the licence was eventually granted for 2005-06 allowing the club to participate in the UEFA Intertoto Cup.

Politics is an integral aspect of modern sports in Italy (Colucci, 2004). Szymanski (2000) suggests that the interest of politicians centres on two

aspects of sport: first, that as individuals courting public opinion, politicians want to be associated with those activities that interest their constituencies; second, that politicians are responding to widespread consumer dissatisfaction over pricing and price rises. The first of these points is most relevant in the Italian context. The passion and engagement that Italians have for football is one key reason why politicians intervene so directly in football. By way of contrast, political involvement in the financial problems of clubs in England and Scotland has been restricted to words rather than action, with the emphasis being on reports and investigations rather than direct intervention (All Party Parliamentary Football Group 2004; Scottish Parliament Enterprise and Culture Committee, 2005).

Another reason for political involvement is the nature of football club ownership in Italy. Several club owners, most noticeably the Italian Primer Minister Silvio Berlusconi, who owns AC Milan through his Finivest media conglomerate, are powerful figures in politics or in business[4], and in Italy it remains the case that such prominent individuals and/or their families or other close associates continue to exert significant influence over decision making and policy. In an interview with BBC News during the 2006 Italian general election, the leader of the main opposition party, Romano Prodi, commented that "if you analyse [Berlusconi's] legislation, it is done in his favour and in favour of his friends" (BBC News at Ten, 22 March 2006).

The *salva calcio* decree is an illustration of accounting as a social and political practice, where implementation of a financial reporting regulation has

prioritised certain political and social interests, in this case the interests of football club owners and their supporters. The decree is a means of helping achieve a particular social end. In other word it makes it easier to award licences to clubs, thus ensuring their continued participation in Italian professional leagues, an outcome deemed to be both in the public (social) and political interest.

A compelling illustration of the political environment within which Italian football operates can be seen in the issue of unpaid employee taxes and in particular the example of Lazio. Over a number of years, several Italian clubs have fallen behind - substantially in several cases - in their payments to the Italian tax authorities in respect of players' taxation and national insurance contributions. In part this arose from a change in the law in 2000 regarding social security payments. Until then it had been against the law for clubs (or other companies) not to pay IRPEF (social security) in respect of their employees. When the requirement was dropped clubs stopped paying social security (World Soccer, 2005). But, as players continued to interpret their contractual terms as providing a net payment from their employer, the social security liability has greatly accumulated.

Similar to the previous example of amortization, several clubs sought another special decree, the *spalma perdite*, essentially asking to be allowed to defer these tax liabilities over a longer time period (Baldini, 2005). Interestingly this demand was rejected by politicians, apparently responding to the widespread feeling in the country that this was an unacceptable demand. While the peculiarities of football are accepted by many Italians, the different response

centres on the fact that unlike *salva calcio*, *splama perdite* was not about some abstract accounting issue. Rather it was about tax, a real issue for every Italian, none of whom is offered or expects any leniency in terms of when and how their payments are made.

However, Lazio was able to make an individual agreement with the tax authorities – an agreement allowing it to escape bankruptcy - being permitted to pay off its €140m tax liability over a period of 23 years[5]. The Italian Prime Minister, Silvio Berlusconi, argued that the deal was necessary to avoid public disorder: "we are talking about a team that has a huge number of supporters and there could have been public disorder and grave consequences" (ANSA, 2005b). Perhaps, unsurprisingly, the agreement was not popular with everyone. The chairman of fellow Serie A club, Bologna, described the agreement as a joke (ANSA, 2005a), and suggested that the club should be stripped of titles won previously which had in effect been part funded by the state (La Repubblica, 2005). In typically colourful languages, the Northern League political party described it in the following terms:

> " 'The thieving Romans have not hesitated to save Lazio, which in a serious country would have gone straight into bankruptcy,' said Northern League 'lawmaker' Mario Borghezio" (*AccountancyAge*, 2005)

According to Franco Carraro (World Soccer, 2005) the total debt of clubs to the tax authorities has fallen from €500m in 2003, to €200m in 2004. Moreover, to be granted a licence to participate in the 2005/06 championship, clubs will have to "have their books in order by March 31, not only with regard to the payment of players' wages but also with regard to taxes and

social security payments. Clubs that are still in debt have to show that they are making regular payments to the Inland Revenue” (World Soccer, 2005, 34). Although this sounds like the situation is being brought under control, it is worth noting that Lazio’s 23 year payment plan constitutes ‘regular payments’, or at least will do as long as the payments are forthcoming.

## CONCLUSION

In the last decade or so, top-level football clubs throughout Europe have received unprecedented levels of income. Paradoxically, the financial performance and position of many of these clubs has deteriorated markedly at the same time. Few clubs report profits: several clubs burdened with high wage costs are facing severe financial problems. Nowhere is this more apparent than in Italy where both large and small clubs are facing financial crisis (Lago et al., 2006). This picture of financial distress is particularly significant given that football remains the dominant sport in Italy (Baroncelli & Lago, 2006). The level of public interest in football coupled with the political environment within which the sport operates is a major factor in explaining the introduction of the *salva calcio* decree.

Its implementation in the financial statements is a form of impression management; an attempt by a club and its owners and/or directors to manage the impression the organisation makes on key audiences. In this case the audience is not shareholders and the financial markets but rather other stakeholders, notably the governing body, as well as supporters and the wider community. The decree is motivated by a form or legitimacy theory, where it

is used to legitimise the financial position of the organisation. It highlights the possibility of using financial reporting to achieve a particular social purpose: in this case to facilitate the awarding of licences to clubs by the governing body, the FIGC. Despite the fact that the decree has no direct cash flow effect, it does have obvious economic consequences. Clubs require to be licensed to participate in the appropriate league, as a result of which they may earn revenue and may chose to incur costs. Moreover the implicit justification for the decree is that it is the public interest. Certain political and social interests are prioritised – those of club owners, supporters and the wider public – and accounting policy is used as a mechanism to facilitate the continued operation of enterprises deemed to be socially significant.

Adoption of the policy extended the useful lives of the asset of player registrations, thus enhancing both reported asset figures in the balance sheet and reported profit in the short term. It is interesting to contrast this preferred Italian policy with policies adopted by many professional sports teams in the United States. In the United States teams are motivated to adopt accounting policies which maximise losses (Fort, 2003). One example is the desire to shorten the length of time over which player registrations are amortised. But while the direction of accounting policy effect is opposite to that in Italy, there is a similarity in motivation. While the Italian clubs are seeking to legitimise their financial position with a view to receiving a licence from the regulatory body, one motivation for teams in the United States is a desire to legitimise their financial position with a view to strengthening their collective bargaining position. In one sense therefore both approaches are about competitiveness.

Equally it should be noted that there may also be an anti-competitive aspect where not all clubs or teams follow the same policy.

The decree demonstrates quite clearly that it is simplistic to view financial reporting as a neutral activity; to view football club annual reports as some form of financial league table. From an orthodox financial reporting perspective, no logical case can be sustained for an accounting policy which so inadequately reflects the use of assets or which results in a company's balance sheet reporting an asset value long after the asset's disposal. While the true and fair view may remain a somewhat ambiguous concept, failing to write down an asset to its realisable value and failing to amortise it over its useful life is patently neither true nor fair.

As the financial components of the UEFA club licensing scheme are progressively introduced, one area that would benefit from further research is a study of the effectiveness of the regulation of club finances. Of particular interest would be an empirical study of clubs awarded and refused licences in Italy and elsewhere, based on the financial statements and regulatory ratios. Such a project would be of value in testing the credibility of the club licensing system as well as offering useful insights into the transparency of the regulatory process.

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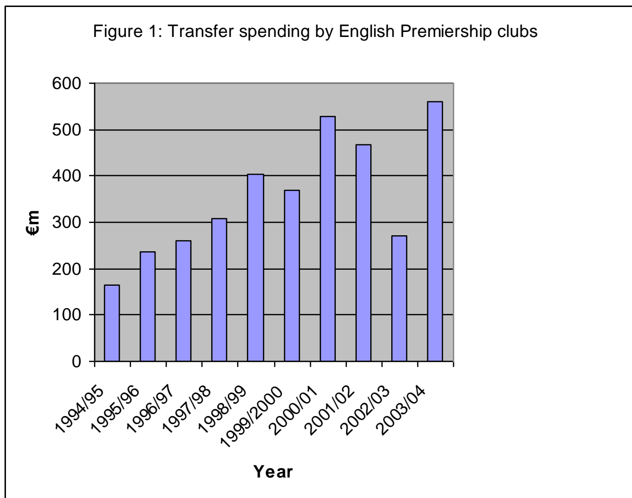
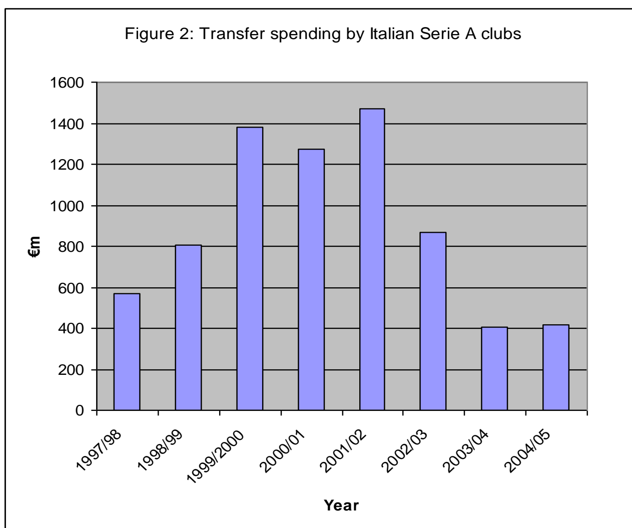
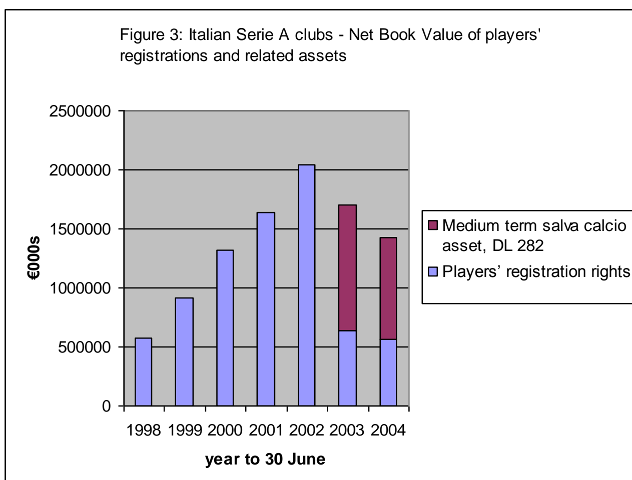



Source: Deloitte & Touche (2005a)




Source: Lega Calcio (2005)




Source: Lega Calcio (2005)

| SS Lazio S.p.A. | | | |
|---|---|---|---|
| BALANCE SHEET (extracts) | | | |
| | 30/06/04 €000 | 30/06/03 €000 | 30/06/02 €000 |
| ASSETS | | | |
| B) INTANGIBLE ASSETS (extracts) | | | |
| I Material intangible assets | | | |
| 8) Players' registration rights | 18,075 | 26,555 | 272,158 |
| 10) Medium term *salva calcio* asset, Decree Law 282 | 170,328 | 191,619 | 0 |
| Total | 188,403 | 218,174 | 272,158 |
| … | | | |
| TOTAL ASSETS | 349,805 | 430,986 | 531,606 |
| | | | |
| PROFIT AND LOSS ACCOUNT (extracts) | | | |
| 10 Amortisation and diminution (extracts) | | | |
| a) Amortisation of players' registrations rights | (16,348) | (16,439) | (75,463) |
| a.1) Amortisation of medium term *salva calcio* asset, Decree Law 282 | (21,291) | (21,291) | 0 |
| … | | | |
| Total amortisation | (37,639) | (37,730) | (77,519) |

Exhibit 1: Disclosure of intangible assets (translated)

SOURCE: S.S. Lazio S.p.A. Progetto di Bilancio al 30 Giugno 2004, 2003

| Club North | Club South |
| --- | --- |
| Acquires player A on a 3 year contract at a cost of €9m at time $t_o$. Net book value of player A registration rights in the balance sheet at time $t_2$ is €3m. | Acquires player B on a 3 year contract at a cost of €12m at time $t_o$. Net book value of player B registration rights in the balance sheet at time $t_2$ is €4m. |
| North sells player A to South for €15m at time $t_2$. Player A signs a 3 year contract. The estimated realizable value of player A at time $t_2$ is only €5m. | South sells player B to North for €15m at time $t_2$. Player B signs a 3 year contract. The estimated realizable value of player B at time $t_2$ is only €5m. |
| North reports a gain on sale on player A in the Profit and Loss account of €12m. North records a new intangible asset, the registration rights of player B, in the Balance Sheet at €15m. | South reports a gain on sale on player B in the Profit and Loss account of €11m. South records a new intangible asset, the registration rights of player B, in the Balance Sheet at €15m. |

| Looking ahead: | |
| --- | --- |
| Annual amortisation charge of €5m per annum ($t_3, t_4, t_5$). | Annual amortisation charge of €5m per annum ($t_3, t_4, t_5$). |
| A similar exercise takes place in another two years' time | |

Exhibit 2: Accounting for transfers (hypothetical example)

[1] Alan Hansen, former captain of Liverpool and Scottish internationalist, now employed as a football expert by BBC television, 5 May 2005. (http://news.bbc.co.uk/sport/hi/football/eng_prem/4508645.stm).

[2] However, even cash is not immune to creative accounting practices. Recent work in the United States by Mulford & Comiskey (2005) claims to shatter the myth that 'earnings are an opinion, cash is a fact'.

[3] According to a report in *La Gazzetta dello Sport* (26 May 2005) an agreement was reached between the Italian government and the EU Minister for Internal Markets, allowing clubs to write off the *salva calcio* balance over 5 years from the year ending 30 June 2003 (Laudisa, 2005). The infringement procedure against Italy was formally closed in October 2005 (European Commission Press Release IP/05/1271). Despite this it is difficult to see this as anything other than a compromise given that the change in time period does not alter the non-compliance with the accounting directives.

[4] Other prominent businessmen and politicians closely involved in Italian football include Massimo Moratti at Internazionale (oil company executive), the Agnelli family at Juventus (cars) and Diego Della Valle at Fiorentina (shoes/fashion). It is also worth noting that the Chief Executive of Berlusconi's AC Milan, Adriano Galliani, is also President of the Lega Calcio.

[5] At the 30th June 2004, SS Lazio reported debiti tributari (fiscal debts) of €151.4m. At the same date its total debts totalled €348.1m; its total assets €349.8m (SS Lazio S.p.A. Progetto di Bilancio al 30 Giugno 2004, 39).