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## **VALUE OF A FOOTBALL CLUB IN THE CONTEXT OF SOCIAL MEDIA<sup>1</sup>**

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**Summary:** The paper presents an approach to the valuation of specific sports businesses – commercial football clubs in the context of social media factors. The authors show specific value definitions from philosophical to financial approaches. Research shows us that to understand and measure the value of football clubs is not as simple as in non-sports companies. The problem lies inside of intangible assets that from an accounting viewpoint do not constitute all the factors which build the value of the club. One of those factors is social media and their influence on football business.

**Keywords:** Value, economic value, football clubs, social media.

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## **1. Introduction**

Football has long ago stopped being merely a sport. Table 1 illustrates the business significance of professional football clubs. Out of 10 most valuable brands among sport teams, six are football clubs. Currently, the majority of professional football clubs have substantial financial backing from global corporations and financial institutions. The carrying values of the largest European football clubs run into hundreds of millions of euro. This means that the football business has become

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a fully-fledged part of the economy. Expenditure of this level raises questions about its effectiveness. The term of economic effectiveness of the functioning of this branch of business is not easy to define, as one must first identify the factors that influence it. The role of economic factors is not very well determined, however, it is these factors that most likely decide on the scale and value of the functioning of commercial football clubs.

The football business on the local Polish market is dynamically developing, but it also carries a series of business risks. During the 2011/2012 season in the highest class matches, the increase of revenue of clubs was 19% higher than during the previous season. The attendance of audience on stadiums rose as well, however, it was not enough to fill even 90% of the spots on the stands [Ernst&Young 2011]. This already raises the question whether this means that sport clubs have overinvested, if they have the means to sell their services on a much bigger scale than the actual demand requires. Consecutive football seasons bring discussions about the solvency and potential bankruptcy of sport clubs. UEFA has introduced the rule of fair play into financing the activities of football clubs in order to stabilise the situation in this matter [UEFA 2012]. All these elements make to ask the question: what influences the value of a sport club, and what are the elements that might decide its economic effectiveness.

**Table 1.** The ranking of sport brands in the sport team category (2010)

Place in ranking	Sport team	Sport	Country	Brand value in USD million
1	Manchester United	football	United Kingdom	270
2	New York Yankees	baseball	USA	266
3	Real Madrid	football	Spain	245
4	Dallas Cowboys	American football	USA	208
5	Bayern Munich	football	Germany	200
6	Arsenal London	football	United Kingdom	195
7	AC Milan	football	Italy	175
8	FC Barcelona	football	Spain	170
9	New York Mets	baseball	USA	159
10	Boston Red Sox	baseball	USA	157

Source: [Schwartz 2010].

This article shows the situation of commercial sport clubs from the highest class. This scope was chosen because it has been noticed that from an economic standpoint these clubs are becoming more attractive business partners in Poland, but at the same time they are burdened with a very high operational and financial risks. This can be observed in the solvency problems that the clubs of this class struggle with every season. Despite their economic problems, their social and business appeal is steadily rising. Therefore, evaluating them requires a different approach from evaluating

commercial enterprises. One must attempt to identify the key factors influencing the value of clubs, and take notice of those select factors that are affected by social media.

## 2. Value

The theory of value has various research approaches as to how and why things have the value they do, regardless of whether it is a person, an idea, or an object. In order to properly understand the factors shaping a company's value, one must understand the evolution of the definition of value itself.

According to the definition in *Nowa Encyklopedia Powszechna PWN*, philosophical value is “the basic category of axiology, denoting everything which is valuable and desirable, that which humans strive for; philosophers, ethics and aesthetics in particular argue whether value is something that applies to objects in an objective, or a subjective way; objectivists see value as an attribute inherent to an object (phenomenon) regardless of the subjective appraisal done by a certain subject from a certain point of view; subjectivists see value as an attribute given to the object by a subject, revealing only certain emotional and volitional attitudes towards valuation” [*Nowa Encyklopedia... 1997*].

The sources of value should be sought in ancient philosophical theories, namely in axiology which was called ethics at the time. Axiology (*aksios* – worthy, valuable, *logos* – study, word) considers value in a broad and narrow scope. In the narrow sense it deals with a careful consideration of the theory of value in various branches of science and types of value, e.g. in moral, religious, aesthetic, sociological, and economic values. In the broader sense, axiology examines the nature of value, i.e. what is value, to what extent it is objective, subjective, and how it is created. It also deals with the classification and establishing of a hierarchy of values, their relations with entities, and the ways of understanding them.

Ethics tells us that moral good is a value. A characteristic of ethics that distinguishes it among other branches is that it not only analyses facts, but goes beyond the boundary of “what is”, arguing in favor of “what should be”. In this sense, ethics is a theory of value in the context of the concepts of good and evil, it is focused on determining a hierarchy of values and the possibilities for man to achieve them.

Socrates, considered the creator of ethics, thought that the greatest virtue was knowledge. “Virtue is the true good. Virtue is only one, because all virtue is knowledge. By gaining knowledge, we achieve good, and with it, benefit and happiness” [Tatarkiewicz 1983, p. 75]. Socrates created a life advice, stating that the greatest value and the most ethical thing for man to do is to seek knowledge and to pass it on to others. According to him, the most important task of man is to unify reason with virtue and happiness.

A student of Socrates, Xenophon, introduced the term *oikonomikos* (*oikos* – home, wealth, property, *nomos* – law, rule, custom), that is economics, as a study of household management. In his works he considered the matters of man's managing behavior. He recognized the significance of farming, the issue of managing slaves, he addressed the notion of being self-sufficient in relation to the country's food. Xenophon started to differentiate the value of goods as having functional value, and exchangeable value. This led to the development of the function of money in a barter economy as a source of wealth.

Another student of Socrates became the author of a complete and systematized scale of value. Plato was occupied with the theory of virtues, which was important for social life. In this theory he distinguished three parts of the soul, and to each he assigned a specific type of virtue: the virtue of the reasonable soul is wisdom (prudence) and achieving it, as well as submitting of the lower parts to reason; the impulsive soul – courage, and the lustful soul – self-control, that is moderation (temperance). These three virtues were subordinate to a fourth one – justice, which emerges when each part of the soul properly follows its assigned virtue. It is the theory of four virtues, sometimes called the cardinal virtues. In his deliberations Plato held ideas and ideal goods in higher regard than tangible goods, which he understood as a means for acquiring ideal goods and the virtue of justice [Reale 2008].

Unlike Plato, Aristotle did not focus on the idea of good, but rather on empirical deeds and behaviors of man, and his pursuit of perfection. He assumed that virtue should be sought in that which is empirical. He furthered the study of management, developed the significance of money, but at the same time he emphasized the importance of the virtue of justice which contains all the other types of virtue. He introduced the division of justice into distributive justice and compensatory justice. The first one concerns goods and their proportions according to the rules of geometrical proportion, and takes into consideration the differences between people. The second one is exchangeable – acting according to the rules of proportion and does not include people. Aristotle distinguished three basic parts of the science of management:

- *oikonomikos* as a science of management, but improved with the ability to earn money from additional sources, therefore learning to become wealthy,
- *chrematistics* as the art of exchanging and accumulation of money,
- learning about money.

Following Xenophon, he compared the functional value of various goods by the use of money. In his considerations of money, he would show that it is a part of a social agreement which is the result of the exchange of goods. He would view the value and price of goods mainly from the standpoint of their usefulness. He also addressed the issue of labor costs. According to Aristotle, a trade transaction relies on the exchange of surplus goods in such a manner so as to keep matters of usefulness and labor costs equal.

When discussing the development of the theory of value, it is necessary to mention the notion of rationality and its interpretation by M. Weber. M. Weber differentiated between rationality of value, and rationality of purpose. When determining purpose, it is done with taking value into consideration. For the purposes of economy, rationality is understood as actions taken in order to reach specific goals. Following this line of thinking, questions arise as to how to examine the goals of management and what value should be assigned to them. Furthermore, whether or not – and if yes – what methods can be used to assess the effects of managing, i.e. their value [Dudycz 2005].

### **3. The football club and value**

Understanding what are the constitutive values of commercial sport clubs requires characterization of these business entities. What are the differences between commercial clubs and non-sport enterprises? The differences are most apparent in the structure and features of a sports product, as well as in the resources that it was made from. Next, the sum of the product's features makes a brand. The brand is then received by the customers. At this point it can be observed again, that not only the product itself is specific and non-homogeneous, but also the customer groups of sports products are non-homogeneous. At each aforementioned stage and element, value is being created. Unfortunately, this value cannot always be easily expressed in an amount of money in a given currency. The reason for this is that not all recipients of the sports product are paying for it. Moreover, with the emergence of an appealing sport brand, the value of the club becomes increasingly disconnected from its purchasable products [Perechuda 2012]. Keeping the above mentioned in mind, we should ask what tools can and what tools cannot be used when trying to assess the value of a sport club, and where are the key “centers” of creating this value. In this article we inquire what modern channels of information influence these “centers”.

The finance theory of enterprises has forged many models and tools which make it possible to attempt the assessment of value of companies. When evaluating a commercial sport club, the use of some of these tools may be possible. However, to know if they can be used, and which of them can be applied, the financial organization of the club must be analyzed.

Enterprises which are owned by non-public entities have their own specific set of goals. From a financial perspective, the purpose of the activity of business entities is building and creating benefits for its owners across a long time span. The goal of running an enterprise can be summarized as increasing its value [Michalski 2009, p. 7]. The increase of value often comes down to keeping a stable cash flow for the enterprise over an extensive period of time. However, to ensure an increase of benefits for its owners, the enterprise must first secure suitable conditions for its own survival.

The primary difference that can be seen in the financial structures of a commercial sport club and a “non-sport” enterprise is that the priority goal of the club’s activity is not generating cash. Furthermore, drawing on the examples of the football clubs in the Polish Ekstraklasa, the goal of the owners is not receiving direct profits from the activity of clubs either. The example of the ITI group, which is the owner of the Legia Warszawa club [Ernst&Young 2011], shows that the direct benefits which the owner derives from the club are the effects of promoting its own trademarks and brands that belong to the group.

Non-sport enterprises that use outside funding are able to appraise the cost of capital more easily than sport clubs. When calculating their cost of equity one can use the CAPM model or the opportunity cost [Dudycz 2005]. Unfortunately, in the case of the cost of capital in a sport club, the purpose of which is not generating monetary profits for shareholders, it is not so simple.

When managing a sports company it is also more difficult to assess the risk of running the business. In addition to the group of specific risks concerning business, there is also the risk connected with achieving proper sport results, which often becomes partially independent of the resources a sport club possesses. Unfortunately, the difference in revenue between taking a spot in the middle of a league table and a spot in its upper part may be very substantial for a given unit.

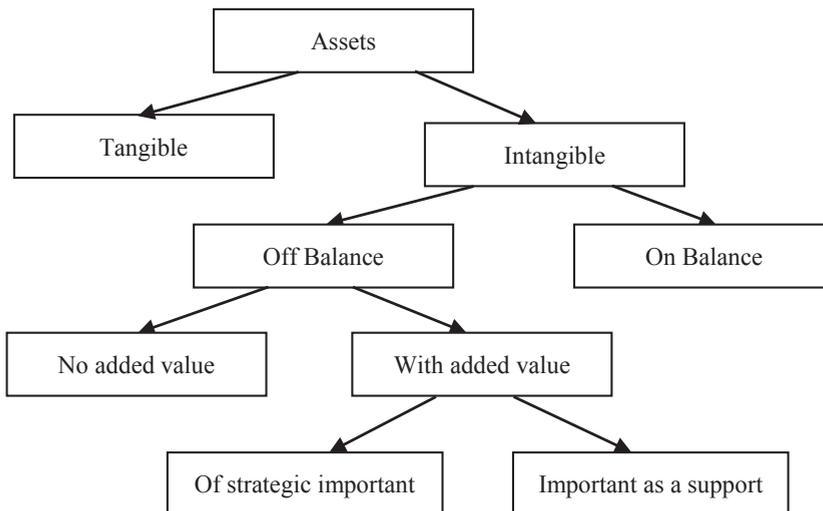
One of the key assets in a football club is its players. Football players are important, because when a club does not have any real estate of considerable value, then it is the sportsmen that constitute its greatest value [Perechuda 2012]. An example of this can be the share of player cards value in the general total assets of the Ruch Chorzów inc. club which is listed on the NewConnect stock exchange. In 2010 this share amounted to 15.16%, whereas in 2009 it totaled 37.85%. The change in the share in the aforementioned years resulted from the club selling a portion of its players, which increased its revenue (own calculation on the basis of: [*Raport roczny...* 2010]). Unfortunately, when spending large sums on a player we take a much greater risk than a non-sport enterprise that is buying a fixed asset. This risk is related to the health and physical condition of the player, which is not certain and cannot be valued with a probability close to 1. When buying a player, however, a company is also buying his image, whose value appears to be much more stable than his physical condition. An excellent example is the Brazilian football player Kaka, bought by Real Madrid. Before the purchase it was estimated that regardless of his physical condition, the transfer will pay for itself on the basis of selling his image [www.realmadrid.com].

According to Xenophon’s conception of value in which two parts of good value (functional value, and exchangeable value) were mentioned, the information presented above shows that one of the essential components in the value of sport clubs are the players. This can be analyzed in two ways. A player card priced in a balance sheet according to the purchase price does not include all the elements that form a company’s value. J. Fazlagić points to the meaning of intellectual capital for

enterprises. He argues that contemporary accounting deals mostly with tangible assets, whose value results from market transactions. Intellectual capital, however, is often a product of interaction between people, and related to non-tangible resources which include such elements as information, relation, and emotions [Fazlagić 2010, pp. 79–81]. In the case of sport clubs, these elements are heavily affected by media. This stems from the fact that sports events, right next to wars, elicit some of the biggest interest among humans. In the age of modern economy, media can act swiftly thanks to the channels available in Internet media.

As a result of some remarkable changes in economy there is a change of major drivers of value creation from tangible to intangible assets. Intangible assets are not able to be directly observed, measured and identified, but existence of intellectual capital as an asset of corporate is a fact. Football player is an example of key intangible asset of sports club with whole scope of factors not easy to measure:

- image,
- relation with media,
- somatic features,
- leader features,
- talent,
- health,
- experience,
- motoric features,
- technique and tactics,
- football statistics.



**Figure 1.** Classification of intangibles assets

Source: [Fazlagić 2006, pp. 45–53].

Below you can find a diagram where a split of assets is presented. Intellectual capital can be included in traditional balance sheet category of goodwill. But most intangible assets value added is still off-balance. In case of football player we can find its accounting value of historical view on balance but there are elements of the player that are not included in this valuation.

#### 4. Social media context

In modern society Information Technology surrounds us everywhere. Moreover as of June 2012, 34.3% of world's population had access to the Internet [*Internetworldstats*]. This had a direct impact on the rise of popularity of social media – interaction among people in which they create, share, and/or exchange information and ideas in virtual communities and networks [Ahlqvist et al. 2008, p. 13]. Social media differ from traditional/industrial media in many ways, mostly in their global reach and permanence. Looking at Alexa.com statistics we can observe that internet users tend to spend more time with social media sites than any other type of site. The total time spent on social media in the U.S. across PC and mobile devices increased by 37% to 121 billion minutes in July 2012 compared to 88 billion minutes in July 2011 [*State of the media... 2012*].

One of the types of social media is social networking websites. IT is a platform for building social networks between people who share the same interests or who have real-life connections. Each user in such network has his own profile and variety of other features and options. Interaction between users is often provided by instant messaging or other forms of communication over the Internet. There are many well-known sites such as Facebook, LinkedIn, MySpace, Twitter, YouTube and many others.

A 2011 survey found that 47% of American adults use a social networking service [*Finance – Yahoo*]. This rampant growth in popularity of social networking services has forced football clubs and players to also sign up to those services to stay up to date with current trends. Most popular clubs from top European leagues have tens of millions “likes” on Facebook and several million followers on Twitter. Most popular players achieve similar numbers in terms of their popularity, for example Cristiano Ronaldo has over 70 million “likes” on Facebook and over 20 million followers on Twitter.

Social networking provides many pros and cons for instance it can affect player image which corresponds to player value. There are many examples of unfortunate expressions and sentences posted by players on Twitter, for example England's international Rio Ferdinand was charged with improper conduct by the FA after he acknowledged a racist comment on Twitter that referred to the Chelsea defender Ashley Cole as a “choc-ice”. He was later fined 45 000 pounds for this comment. Such behaviors can lead to viewing players as unprofessional and not only decrease their PR values but also scare away contractors and advertisement companies.

Moreover football player and his image is a factor that can influence sale revenues by direct player value in case of its transfer and indirect by sale of player image in different sports club products, for example T-shirts.

Moreover, also clubs need to be careful with their social media approach, for example Bayern Munich PR action on Facebook has ended in a disaster. On November 2013 the club announced on their account that they had signed in a new player. Shortly afterwards on the homepage of the club, Christian Nerlinger, the team manager, announced the signing of a new offensive player and that the spectacular purchase would be introduced exclusively on Facebook. Bayern Munich fans were very excited and waited eagerly in huge numbers, to see who their club had signed. However, shortly afterwards, the club posted a message that “The new star player is... YOU – the 12th man of the squad”. This way the club wanted to reward its fans, but by misjudging their expectations this ended in a spectacular failure. Fans were really disappointed and negative comments and rants were posted on club’s Facebook profile. The story soon went global and trended 2<sup>nd</sup> worldwide on Twitter.

Despite some negative cases, social media provide a lot of advantages for football clubs. The biggest of them is social media analytics. Social media pages give clubs a valuable input of their fan base views. This contributes too many things such as targeting marketing campaigns, contests and various interaction options with the fans. Furthermore, clubs can get their fans’ opinions about which players they like the most, which should be sacked and which they would like to see signed in. Of course the final decision is made by the manager and the board of the club, but this way they can get feedback from the fans, which is also very important for building value.

Information Technology has also other applications in determining player values. There are many Internet portals such as [www.transfermarkt.de](http://www.transfermarkt.de), websites with scores, results, transfer news, fixtures, and player values. Such websites often correctly estimate player values, along with some other facts, such as transfer “rumors”.

Another popular tool to evaluate players is The Castrol Performance Index. It is a ranking system created by Castrol as a part of a sponsorship package with FIFA. The system uses mathematical formulas which evaluate various player performances in terms of their individual actions. The system takes into account the strength of the opposition and the time, during the match, in which player’s actions have occurred.

## 5. Conclusions

Xenophon pointed out two ways of good value: functional value, and exchangeable value. This theory was one of the steps to analyze specific sports businesses – commercial football clubs in the context of social media factors. This paper shows that the value of football clubs business should be under the influence of football player value as one of intangible sports club assets. All above examples contribute to

the influence which Internet has on players and clubs image. It is a factor that cannot be omitted in business valuation and is important in modern football. Football fans' relations have an important influence on football clubs by social media. Unfortunately there is a lack of proper and easy ways to identify and measure economic value of this relation. Intangible assets which contain rights to football player should contain other factors which impact business value in order to show the whole spectrum of business effectiveness. In the process of valuation of the intangible assets data in balance should be revaluated and corrected. Corrections can come from dynamic changes of football player's value caused by factors mentioned in the paper including social media effect as in Rio Ferdinand case. In order to precede proper valuation of football clubs, it is necessary to identify the key factors influencing the value of clubs, including those selected factors that are affected by social media.

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## **WARTOŚĆ KLUBU PIŁKARSKIEGO W KONTEKŚCIE MEDIÓW SPOŁECZNOŚCIOWYCH**

**Streszczenie:** Artykuł przedstawia podejście do wartości specyficznego biznesu sportowego – komercyjnych klubów piłkarskich w kontekście oddziaływania czynników mediów społecznościowych. Autorzy pokazują wybrane definicje wartości od podejścia filozoficznego do finansowego. Badania pokazują nam, że zrozumienie i ocena wartości klubów piłkarskich są bardziej złożone niż w spółkach niesportowych. Problem leży wewnątrz wartości aktywów niematerialnych, które z punktu widzenia rachunkowości nie obejmują wszystkich czynników kreujących wartość klubu. Jednym z tych czynników są media społeczne i ich wpływ na biznes piłkarski.

**Słowa kluczowe:** wartość, wartość ekonomiczna, kluby piłkarskie, social media.