



ORGANISATION AND FINANCING OF FOOTBALL CLUBS IN CROATIA

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Abstract

The football has been gradually transformed from a sport game and a popular social phenomenon into a market activity attracting significant foreign investment all over the world. Clubs are increasingly investing in the transfer of players which is why this sector grips attention in the economy and fiscal systems. There is a set of dilemmas relating to the legal status of football clubs in Croatia, their accounting policies and tax liabilities, but also the subsidies they receive from the public sector. It is reasonable to wonder to what extent football remained in the area of public - sport and financial - interest and to what extent is it subject to private interests, driven by profit motives. To the extent they are dominated by private interests, football clubs should be deprived of preferential tax treatment, significant public subsidies and other benefits enjoyed at the burden of the public sector.

Keywords: football, financing, organisation, performance, indicator

1 INTRODUCTION

The main objective of this paper is to perform the financial analysis of business activities of football clubs in Croatia. The analysis includes clubs from first and second Croatian football league (cro.

Hrvatska nogometna liga - HNL), according to the current schedule for the season 2015/2016. HNL I includes 10 and HNL II additional 12 clubs.

We analyse the structure of revenues and expenditures, as well as assets, liabilities and capital of football clubs. Finally, through the calculation of selected financial ratios we assess their relative success in business operations, but also point to the problems associated with their liquidity and indebtedness. It should be noted that

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one of the second league clubs (Dinamo II) is actually the reserve team of the first league club Dinamo. For this reason the financial analysis includes 21 rather than 22 football clubs.

Finally, based on the calculation of selected financial indicators we assess their relative business success and point out to the potential problems relating to their liquidity and indebtedness. Based on their financial results and the incurrence of liabilities we judge whether football in Croatia grew from financially less important social activity (with obvious public benefits) to a serious economic branch with prevalent private interests. The financial analysis should reveal the stage of transition of Croatian football clubs to professional sports. Results of the financial analysis should indicate whether Croatia needs a better regulation of the financial operations of the football sector and the establishment of a stable legal and institutional infrastructure for the long-term sustainability.

2 LEGAL STATUS, ACCOUNTING OF FOOTBALL CLUBS AND PLAYERS

Today, sporting success is not the only a way to measure the football club's performance (Van Uden, 2005), nor are fans the only interest group with expectations related to the club's performance (Mason, 1999). Therefore, these organisations have to design new strategies and objectives in order to adapt to a sector that has been challenged by professionalization and commercialisation; processes that have affected sport in general, but especially the most popular sport branches and those with the greatest media coverage. These processes and their consequences have lead sports to be considered as a business (Chadwick and Beech, 2004), an industry (Foster, Greyser et al, 2005), or an economic sector, capable of generating value for all actors partaking in it (Gomez, Marti, Opazo, 2008).

In North America it is commonplace, especially among economists, to think of the owners of professional sports teams as profit maximisers. In Europe, however, this assumption has been treated somewhat sceptically. Sloane (1971) argued that a plausible characterisation of the owners of football clubs is as "utility maximisers" subject to a budget constraint, where utility is

largely associated with success on the pitch. Reasons for this view include the perceived lack of profitability of football clubs and the opinions expressed by club officials. In some countries football clubs are organised as sporting associations which have no shareholders, but in England all professional clubs are limited companies, and most have been so for around 100 years.

Financial reporting of clubs in Croatia is not uniform because some clubs use non-profit accounting, and others for-profit accounting. For this reason were certain items from financial statements of clubs set up as non-profit organizations modified to reflect the structure of financial statements of public limited companies. Although this process can not be completely accurate in all parts of the report, it is necessary for making the comparative analysis possible.

In countries where football is popular, the economic weight of professional football increases from season to season and today plays an incredible economic role. Besides increasing the total revenues of professional football clubs, an extraordinary rise in investments can also be observed. Another unique feature is, therefore, that the football industry can only accumulate reserves to a limited extent. The value of assets invested into the sector is constantly on the rise and the improvement of financial/investment opportunities is also a worldwide tendency. The growth in value of player portfolio and squads has now reached an extraordinary (according to certain opinions exaggerated) extent. This fact is supported by the remarkably high transfer fees. In recent years, the increase in equity capital could also be observed, which is very positive since the equity capital is the engine of any enterprise. Unfortunately, this increase is prominent only in the case of certain larger football clubs, while in general the level of indebtedness in professional football is on the rise in many countries. This is the reason why the reduction of debt is still considered a priority in the industry both in the long and short term (Nagy, 2012).

Mourão (2005) provides a deeper analysis of the finances of football; the costs of football teams depend on the divisions in which the teams play and include the costs of salaries, maintenance of infrastructure, and movements of personnel and investments. Football teams' funding may come

from receipts, transfers made by the state, sponsorships, members' contributions, sell sheets, merchandising practices, and bank debt (Mourão, 2005).

Football clubs' balance sheets can be quite interesting since players are usually registered on the balance sheet as assets. The records of right to registration of players in the financial statements is supported by the International Accounting Standard (IAS) 38, which prescribes the recognition and registration of intangible assets that are not specifically dealt with in other international accounting standards. According to IAS 38, an intangible asset is non-monetary asset without physical substance, which can be identifiable. In accounting terms, an asset is a resource - controlled by an entity in whose reports it is registered - which is expected to generate future economic benefits. An asset is identifiable when it is separable, and derives from a contract or other legal rights. Finally, IAS 38 prescribes that intangible assets should be recognized only if the cost of acquiring an asset can be determined reliably.

Morrow (1997) argues justification of accounting records of right to registration of players as intangible assets on the basis of these criteria. Players who have entered into an agreement with certain clubs are associated with those clubs for a certain period of time in which they are expected to generate economic benefits for the clubs. In addition, the fact that the right emerges from the contract, as well as the right to sell players (separation of rights to players from other assets of the club), confirm the identifiability of the asset. Since players are usually bought for a fee (unlike other employees), the cost of acquiring players can be determined reliably and therefore recorded in the financial statements, in line with the IAS 38. Of course, given the duration of the contract, this intangible asset is also depreciating in the financial statements and amortizing within the stipulated period, mostly without residual value.

In order to prevent swapping between clubs during the season, the English Football Association already in 1885 prescribed the registration of all players (Morrow, 1997). The transfer market for players was developed as a result of these provisions. With the registration of players the club reserves the right to hold players for the duration of the contract. If another club wants to 'buy' a

player for the duration of the contract, it has to pay a fee for the transfer of that right to the home club.

It should be noted that - although it is not quite logical - the players who were not purchased but have grown up in the club can not be recorded on the balance sheet because they do not meet all the criteria laid down in the IAS 38. In fact, considering that these players are not purchased for a fee, the acquisition cost for them can not be determined (UEFA 2012).

3 CROATIAN FOOTBALL LEAGUE ORGANISATIONS & FINANCING

In Croatia there are currently seven football leagues. These are the first (I), second (II) and third (III) Croatian football league (cro. Hrvatska nogometna liga – HNL), and first, second, third and fourth county football league (cro. Županijska nogometna liga – ŽNL). The analysis encompasses clubs from the first and second HNL (according to the current schedule for season 2015/2016). HNL I includes 10, and HNL II 12 clubs.

Football clubs in Croatia operate as non-profit organizations or as public limited companies. In HNL I, both legal forms are equally represented. Clubs from HNL II are generally established as non-profit organizations.

Clubs that strive for the development of sports infrastructure, young athletes and the local community, creating positive external effects (externalities) through promotion of sports values in the society should be organized as non-profit organizations. It is logical that such - mostly amateur - clubs are largely financed by public funds. However, professional clubs focused on generating income (which is not necessarily used for the development of their own players but acquisition of better – professional athletes), should not enjoy the status of non-profit organizations.

4 STRUCTURE OF HNL

The average number of players in the first league clubs is 32, the average age of players being 23.5 years, while in the second league teams on average consist of 25 players, with average age of 24 years (Table 1).

Table 1 Structure of HNL I and HNL II teams in 2015

No	Football club	Total players	Average age	Foreign players	Total market value of players (mil. HRK)	Average market value of players (mil. HRK)
HNL I						
1	Dinamo	41	23.8	18	415.12	10.16
2	Rijeka	40	25.1	14	265.22	6.63
3	Hajduk	35	22.9	9	181.21	5.18
4	Split	32	24.9	4	94.78	2.96
5	Lokomotiva	32	22.8	3	70.89	2.21
6	Slaven Belupo	31	24.7	5	58.76	1.90
7	Istra 1961	30	24.6	11	54.97	1.83
8	Zagreb	24	22.8	4	54.21	2.26
9	Osijek	31	24.4	5	45.49	1.47
10	Inter Zaprešić	27	23.3	7	26.01	0.96
	TOTAL HNL I:	319	23.5	78	1,257.49	3.94
HNL II						
1	Zadar	26	27.1	4	38.67	1.49
2	Hrvatski dragovoljac	27	24.4	5	22.22	0.82
3	Gorica	27	25.7	1	20.70	0.77
4	Šibenik	27	24.9	1	12.89	0.48
5	Dugopolje	32	23.9	3	10.08	0.31
6	Rudeš	29	24.3	2	9.86	0.34
7	Lučko	30	22.3	3	9.86	0.33
8	Sesvete	21	25.0	2	9.33	0.44
9	Cibalia	19	23.3	4	7.96	0.42
10	Imotski	23	26.3	1	6.26	0.27
11	Segesta	28	24.9	1	4.93	0.17
12	Dinamo II	11	19.7	1	1.52	0.14
	TOTAL HNL II:	300	24.0	28	154.14	0.51
	TOTAL HNL I & II:	619	23.8	106	1,411.64	2.28

Note: The value of players is converted to HRK according to the according to the CNB middle exchange rate as of July 1, 2015 of 7.582113 HRK for 1 euro
Source: www.transfermarkt.co.uk

Table 2 Clubs with highest amount of profit generated through the transfer of players from season 1995/96 to 2015/16 (in million HRK)

No	Football clubs	Number of buy transactions	Expenditure	Number of sell transactions	Revenue	Profit
1	Dinamo	449	407.84	457	1,423.69	1,015.93
2	Hajduk	467	98.87	508	571.01	472.14
3	Rijeka	325	40.49	318	157.63	117.14
4	Zagreb	219	3.68	236	117.75	114.11
5	Osijek	236	0.53	262	104.03	103.50
6	Split	158	6.26	143	81.13	74.91
7	Lokomotiva	229	6.44	207	60.13	53.68
8	Inter Zaprešić	297	1.02	295	58.46	57.47
9	Slaven Belupo	211	0.49	212	56.11	55.58
10	Varaždin	194	0.03	254	46.40	46.40

Note: The value of players is converted to HRK according to the according to the CNB middle exchange rate as of July 1, 2015 of 7.582113 HRK for 1 euro
Source: www.transfermarkt.co.uk

The average value of players in HNL I is about HRK 4m, whereby players of Dinamo Zagreb are the most expensive, whereas those of Inter Zaprešić are the cheapest. The average value of the second league players is about HRK 0.5m. The total market value of HNL II clubs is, therefore, only slightly higher than HRK 154m and those of HNL I nearly HRK 1.3bn. From a total of 319

players in HNL I, there are 78 foreign players, and in HNL II only 28 of a total of 300 players are foreign. This is logical since the clubs from the first league realize the most buys and sells of players (table 2).

From season 1995/96 to 2015/16, ten clubs with the highest profit from the transfer of players have

completed from a total of 448 (Varaždin) to 906 (Dinamo), transactions (table 2). Earnings from the transfer of players for Dinamo in the past twenty years reached over HRK 1bn.

The top ten clubs list with the highest profit from transfers is mainly composed of teams from the first league, with the exception of Istra 1961, which is surpassed by Varaždin – the club from the third league. It is therefore likely that these clubs are financially much more successful than the second league clubs. Financial analysis will reveal differences in operations between clubs from the first and the second league.

5 REVENUE AND EXPENDITURE OF CROATIAN FOOTBALL LEAGUE

Total revenues of the Croatian first league clubs in 2014 were ten times higher than those of second league clubs (Table 3). Dinamo generated the highest amount of revenue, while second-placed Hajduk achieved almost half of that amount. Expenditures of observed clubs were generally significantly higher than revenues. Accordingly, HNL I clubs achieved a cumulative loss of nearly HRK 122m, and HNL II clubs about HRK 4m. In HNL I, only Zagreb, Lokomotiva and Istra 1961 achieved the positive financial result.

Table 3 Operating results of football clubs in 2014 (in thousands of HRK)

No	Football club	Type	Revenue	Expenditure	Profit/loss
HNL I					
1	Dinamo	npo	120,925	211,373	-90,448
2	Zagreb (2013)	npo	16,830	14,438	2,391
3	Lokomotiva	npo	33,680	33,044	636
4	Slaven Belupo	npo	14,881	16,208	-1,326
5	Hajduk	plc	69,385	75,329	-5,944
6	Rijeka	plc	67,431	81,799	-14,368
7	Split	plc	30,839	36,920	-6,081
8	Osijek	plc	9,439	14,002	-4,563
9	Istra 1961	plc	17,390	17,353	37
10	Inter Zaprešić	npo	6,513	8,351	-1,838
TOTAL HNL I:			387,313	508,817	-121,504
HNL II:					
1	Cibalia	plc	5,568	10,285	-4,717
2	Zadar	plc	7,492	9,180	-1,688
3	Dugopolje	npo	2,876	2,795	82
4	Gorica	npo	3,614	3,609	6
5	Hrvatski dragovoljac	npo	6,402	4,501	1,902
6	Imotski	npo	1,147	1,332	-185
7	Lučko	npo	1,554	1,698	-144
8	Rudeš	npo	2,376	2,083	293
9	Segesta	npo	1,142	1,440	-298
10	Sesvete	npo	1,945	1,320	625
11	Šibenik	plc	2,995	2,721	274
TOTAL HNL II:			37,111	40,962	-3,851
TOTAL HNL I & II:			424,424	549,780	-125,355

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

The largest loss (over HRK 90m) was made by Dinamo, which generates almost one third of total revenues of all football clubs from HNL I and HNL II. Given the dominance of Dinamo compared to other clubs observed, the analysis is carried out with special reference to Dinamo's business operations.

Operating revenues are predominantly represented in all clubs (Table 4). Dinamo Zagreb, Lokomotiva and Slaven Belupo have relatively high other revenues - mainly from the sale of fixed assets and other miscellaneous revenues. Financial statements are not entirely clear on items included in other revenues, which are high – making the financial reporting in football clubs less transparent.

Table 4 Structure of revenues of football clubs in 2014 (in HRK thousands)

No	Football club	Type	Total	Operating	Financial	Other
HNL I						
1	Dinamo	npo	120,925	57,808	597	62,519
2	Zagreb (2013)	npo	16,830	7,655	73	9,102
3	Lokomotiva	npo	33,680	5,208	52	28,420
4	Slaven Belupo	npo	14,881	7,953	138	6,791
5	Hajduk	plc	69,385	62,475	1,696	5,214
6	Rijeka	plc	67,431	67,251	180	0
7	Split	plc	30,839	30,511	328	0
8	Osijek	plc	9,439	9,439	0	0
9	Istra 1961	plc	17,390	17,390	0	0
10	Inter Zaprešić	npo	6,513	6,513	0	0
TOTAL HNL I			387,313	272,204	3,063	112,046
HNL II						
1	Cibalia	plc	5,568	5,565	4	0
2	Zadar	plc	7,492	7,491	1	0
3	Dugopolje	npo	2,876	2,829	0	47
4	Gorica	npo	3,614	3,527	0	87
5	Hrvatski dragovoljac	npo	6,402	4,979	0	1,424
6	Imotski	npo	1,147	1,092	0	55
7	Lučko	npo	1,554	1,554	0	0
8	Rudeš	npo	2,376	2,376	0	0
9	Segesta	npo	1,142	1,084	0	58
10	Sesvete	npo	1,945	1,945	0	0
11	Šibenik	plc	2,995	2,995	0	0
TOTAL HNL II:			37,111	35,436	4	1,671
TOTAL HNL I & II:			424,424	307,640	3,067	113,717

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

Table 5 Structure of expenditure of football clubs in 2014 (in HRK thousands)

No	Football club	Type	Total (1+2+3)	Operating (1)	Financial (2)	Other (3)
HNL I						
1	Dinamo	npo	211,373	190,097	7,738	13,538
2	Zagreb (2013.)	npo	14,438	12,696	1,055	688
3	Lokomotiva	npo	33,044	30,527	174	2,343
4	Slaven Belupo	npo	16,208	16,050	155	3
5	Hajduk	plc	75,329	70,127	3,200	2,002
6	Rijeka	plc	81,799	81,463	336	0
7	Split	plc	36,920	35,614	1,306	0
8	Osijek	plc	14,002	13,949	53	0
9	Istra 1961	plc	17,353	16,673	680	0
10	Inter Zaprešić	npo	8,351	8,273	78	0
TOTAL HNL I:			508,817	475,468	14,775	18,574
HNL II						
1	Cibalia	plc	10,285	8,781	1,504	0
2	Zadar	plc	9,180	3,292	2,036	3,853
3	Dugopolje	npo	2,795	2,689	21	85
4	Gorica	npo	3,609	2,754	19	835
5	Hrvatski dragovoljac	npo	4,501	4,217	21	262
6	Imotski	npo	1,332	1,282	32	18
7	Lučko	npo	1,698	1,620	78	0
8	Rudeš	npo	2,083	1,646	52	385
9	Segesta	npo	1,440	1,422	1	17
10	Sesvete	npo	1,320	1,311	8	0
11	Šibenik	plc	2,721	2,390	332	0
TOTAL HNL II:			40,962	31,403	4,104	5,455
TOTAL I & II:			549,780	506,872	18,879	24,029

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

The football clubs' expenditures structure is dominated by the operating expenditures (for employees, material expenditures, amortization and depreciation and donations). From a total of HRK 550m of first and second league football clubs' expenditures in 2014, Dinamo achieved almost half (Table 5).

The success of clubs in achieving financial results can be estimated by comparing their financial indicators – turnover ratios, indicators of effectiveness and profitability ratios (Table 6).

Total assets turnover ratio is the ratio of total revenue to total assets, which shows how many monetary units of revenues is generated by each monetary unit of assets. The higher the ratio the club is considered to be more successful in the use of available assets. The average total assets turnover ratio in HNL I is 0.53, and in HNL II 0.88. This means that HNL II clubs are much more successful in achieving the financial results than HNL I clubs. This is confirmed by other indicators as well.

Indicator of effectiveness of overall operations is calculated as the ratio of total revenues and total expenditures. It is – therefore – preferable the higher the value of this indicator. Logically, if the value is less than 1, the club operates at a loss. The average effectiveness of overall operations of HNL I clubs in 2014 was 0.76, and in HNL II 0.91. Net profit margin is the ratio of net profit and total income, and is calculated to determine the capability of generating a profit in relation to the accumulated revenues. The HNL II clubs are – with an average net profit margin of -0.1 – also by this indicator considerably more successful than the HNL I clubs with the average value of this indicator of less than -0.3. This fact is even more devastating taken into account that 10 HNL I clubs employ a total of 309, and 11 HNL II only 90 employees (table 6).

6 BUSINESS PERFORMANCES AND FINANCIAL POSITION

Total assets of HNL II clubs is only a bit higher than HRK 42m, while HNL I clubs' assets are even 17 times more valuable – amounting to HRK 731m (Table 7). Dinamo and Hajduk together have over HRK 538m in assets. Rijeka also stands out with its financial domination. Because of the uneven accounting framework certain adjustments to the items in the financial statements of clubs operating as non-profit organizations had to be made for

analysing the structure of assets and liabilities. The assets of non-profit organizations are not classified in reports only as long-term and short-term, but are also divided into produced and non-produced long-term assets, small inventory, non-financial assets in preparation, produced short-term assets and financial assets (without division into long-term and short-term). Keeping in mind the deficiencies of such classification and specifics of football clubs' operations in Croatia (which in principle should not have large amounts of long-term financial assets), their financial assets are entirely classified as short-term assets, as well as small inventory, non-financial assets in preparation and produced short-term assets. Other asset items are classified as long-term assets.

Most of assets consist of intangible assets - rights to players - which are recorded in the balance sheet in accordance with the IAS 38 and amortized annually. Long-term (produced and non-produced) assets of Dinamo in 2014 amounted to around HRK 150m.

The financing structure of football clubs is dominated by liabilities. Total liabilities of HNL I clubs amount to over HRK 600m, while their own financing sources stood at slightly less than HRK 125m (Table 8). HNL II clubs have nearly HRK 36m liabilities and just over HRK 6m of own capital. While it is not unusual for legal entities to borrow in order to finance profitable assets, such a large disproportion of own financing sources and liabilities of football clubs is - due to the specifics of the sector - indeed worrying. Particularly alarming is the finding that of 21 clubs covered with the analysis, 10 clubs (4 from HNL I and 6 from HNL II) have a negative value of capital. This means that their liabilities exceed total assets, i.e. when total assets would be converted into cash at book value, that amount would not be sufficient to cover the liabilities. A negative value of capital emerges as a consequence of the loss in excess of capital, which makes liabilities become greater than assets.

About 34% of short-term and over 50% of long-term liabilities of both HNL I & II football clubs together refers to the liabilities of Dinamo. Liabilities for loans to banks and other creditors of Dinamo in 2014 increased almost seven times. By far the greatest part of newly created liabilities relates to loans from banks and other creditors abroad.

Table 6 Indicators of turnover, effectiveness and profitability of football clubs in 2014

No	Football club	Type	Employees	Assets turnover ratio	Effectiveness of overall operations	Net profit margin
HNL I						
1	Dinamo	npo	86	0.38	0.57	-0.75
2	Zagreb	npo	16	6.08	1.17	0.14
3	Lokomotiva	npo	32	1.80	1.02	0.02
4	Slaven Belupo	npo	17	3.02	0.92	-0.09
5	Hajduk	plc	66	0.32	0.92	-0.09
6	Rijeka	plc	17	1.11	0.82	-0.21
7	Split	plc	30	0.73	0.84	-0.20
8	Osijek	plc	18	0.23	0.67	-0.48
9	Istra 1961	plc	19	0.83	1.00	0.00
10	Inter Zaprešić	npo	8	5.21	0.78	-0.28
TOTAL HNL I:			309	0.53	0.76	-0.31
HNL II						
1	Cibalia	plc	17	0.40	0.54	-0.85
2	Zadar	plc	13	0.62	0.82	-0.23
3	Dugopolje	npo	7	7.16	1.03	0.03
4	Gorica	npo	11	4.75	1.00	0.00
5	Hrvatski dragovoljac	npo	9	6.98	1.42	0.30
6	Imotski	npo	1	25.07	0.86	-0.16
7	Lučko	npo	7	0.23	0.91	-0.09
8	Rudeš	npo	4	4.32	1.14	0.12
9	Segesta	npo	0	3.83	0.79	-0.26
10	Sesvete	npo	9	0.40	1.47	0.32
11	Šibenik	plc	12	2.13	1.10	0.09
TOTAL HNL II:			90	0.88	0.91	-0.10
TOTAL HNL I & II:			399	0.55	0.77	-0.30

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

Table 7 Structure of assets of football clubs in 2014 (in HRK thousands)

No	Football club	Type	Total	Assets		Expenditures of future periods
				Long-term	Short-term	
HNL I						
1	Dinamo	npo	318,733	148,588	141,031	29,113
2	Zagreb	npo	2,770	233	2,537	0
3	Lokomotiva	npo	18,669	8,960	9,708	0
4	Slaven Belupo	npo	4,924	1,614	2,249	1,060
5	Hajduk	plc	219,444	185,136	31,945	2,363
6	Rijeka	plc	60,600	16,691	43,451	459
7	Split	plc	42,528	36,415	6,113	0
8	Osijek	plc	41,544	39,714	1,330	500
9	Istra 1961	plc	20,937	18,518	2,379	40
10	Inter Zaprešić	npo	1,250	26	1,224	0
TOTAL HNL I:			731,399	455,897	241,968	33,534
HNL II						
1	Cibalia	plc	14,029	11,521	2,508	0
2	Zadar	plc	12,130	1,686	10,444	0
3	Dugopolje	npo	402	194	208	0
4	Gorica	npo	761	109	651	0
5	Hrvatski dragovoljac	npo	917	86	830	0
6	Imotski	npo	46	0	46	0
7	Lučko	npo	6,712	6,382	330	0
8	Rudeš	npo	550	169	381	0
9	Segesta	npo	298	58	133	107
10	Sesvete	npo	4,890	4,705	185	0
11	Šibenik	plc	1,403	18	1,385	0
TOTAL HNL II:			42,137	24,928	17,102	107
TOTAL HNL I & II:			773,536	480,825	259,070	33,640

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

Table 8 Structure of capital and financing sources of football clubs in 2014 (in HRK thousands)

No	Football club	Total	Capital and reserves	Liabilities		Revenues of future periods
				Short-term	Long-term	
	HNL					
1	Dinamo	318,733	46,629	103,728	167,534	842
2	Zagreb	2,770	-12,531	4,696	10,605	0
3	Lokomotiva	18,669	5,543	10,342	2,782	1
4	Slaven Belupo	4,924	778	3,259	886	0
5	Hajduk	219,444	135,063	63,405	17,053	3,922
6	Rijeka	60,600	10,508	49,693	239	161
7	Split	42,528	-30,659	10,087	63,101	0
8	Osijek	41,544	-33,584	11,613	63,516	0
9	Istra 1961	20,937	4,061	16,877	0	0
10	Inter Zaprešić	1,250	-1,401	1,476	1,175	0
	TOTAL HNL I	731,399	124,407	275,176	326,891	4,925
	HNL II					
1	Cibalia	14,029	750	11,629	1,650	0
2	Zadar	12,130	4,322	7,808	0	0
3	Dugopolje	402	-106	508	0	0
4	Gorica	761	19	189	552	0
5	Hrvatski dragovoljac	917	-400	1,087	230	0
6	Imotski	46	-249	91	204	0
7	Lučko	6,712	5,085	1,435	192	0
8	Rudeš	550	-1,230	292	1,488	0
9	Segesta	298	-726	1,017	0	6
10	Sesvete	4,890	4,573	317	0	0
11	Šibenik	1,403	-5,550	6,953	0	0
	TOTAL HNL II:	42,137	6,489	31,326	4,315	6
	TOTAL HNL I & II:	773,536	130,896	306,502	331,206	4,931

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

Table 9 Selected ratios of liquidity and indebtedness of football clubs in 2014

No	Football club	Liquidity		Debt ratio	Capital structure
		Current ratio	Cash ratio		
	HNL I				
1	Dinamo	1.36	0.01	0.94	5.82
2	Zagreb	0.54	0.00	5.52	-1.22
3	Lokomotiva	0.94	0.04	0.70	2.37
4	Slaven Belupo	0.69	0.20	1.07	5.33
5	Hajduk	0.50	0.02	0.37	0.60
6	Rijeka	0.87	0.59	0.83	4.75
7	Split	0.61	0.00	1.72	-2.39
8	Osijek	0.11	0.01	1.83	-2.24
9	Istra 1961	0.14	0.02	0.81	4.16
10	Inter Zaprešić	0.83	0.00	2.12	-1.89
	TOTAL HNL I:	0.88	0.12	0.86	4.84
	HNL II				
1	Cibalia	0.22	0.00	0.95	17.70
2	Zadar	1.34	0.00	0.64	1.81
3	Dugopolje	0.41	0.00	1.26	-4.78
4	Gorica	3.45	0.63	0.97	38.44
5	Hrvatski dragovoljac	0.76	0.10	1.44	-3.29
6	Imotski	0.50	0.13	6.45	-1.18
7	Lučko	0.23	0.04	0.24	0.32
8	Rudeš	1.30	1.03	3.24	-1.45
9	Segesta	0.13	0.01	5.32	-1.40
10	Sesvete	0.58	0.30	0.06	0.07
11	Šibenik	0.20	0.01	4.96	-1.25
	TOTAL HNL II:	0.55	0.03	0.85	5.49
	TOTAL HNL I & II:	0.85	0.11	0.86	4.87

Note: npo – non-profit organization; plc – public limited company.

Source: Football clubs' financial statements for 2014

Quite unfavourable financial position of football clubs is confirmed also by indicators of liquidity and indebtedness. Liquidity is a characteristic of assets to convert into cash needed to meet liabilities. In other words, clubs' liquidity reveals the ability to timely meet liabilities.

Current ratio is calculated as the ratio of current assets to current liabilities putting in the relationship the coverage and the need for cash within one year. The value of the indicator greater than one means that the portion of current assets is financed from long-term sources, which is a characteristic of prudent financial management. Current liquidity of HNL I clubs is 0.88 and HNL II 0.55 (Table 9). Thus, HNL I clubs can cover with their current assets (on average) about 88% of current liabilities, and HNL II clubs only 55%. While most football clubs have indicator values far lower than one, there are a few clubs (Dinamo, Zadar, Gorica and Rudeš) with the current ratio greater than one. This finding should be interpreted with caution because these clubs are mostly non-profit organizations with all financial assets characterized as short-term (for the purpose of comparative analysis), which made their value probably overrated. This doubt can best be checked by observing the cash ratio (ratio of cash and short-term liabilities) which reveals how much of the short-term liabilities can immediately be covered by the most liquid assets - cash. HNL I clubs can cover about 12%, and HNL II clubs only 3% of current liabilities with cash (table 9).

The debt ratio is the ratio of total liabilities to total assets and shows what portion of total assets is purchased by borrowing. Preferably, the debt ratio should be 0.5 or less. However, HNL I clubs have the debt ratio of 0.86, and HNL II clubs slightly less – 0.85. Only one HNL I club (Hajduk) and two HNL II clubs (Lučko and Sesvete) have a debt ratio of less than 0.5. Other clubs in general have several times higher values, additionally proving their poor financial position and the need for urgent interventions in their financial management in order to maintain the business continuity. The capital structure represents the ratio of debt (total liabilities) and equity. The high value of this indicator points to difficulties in meeting financial obligations – the problem of repaying the principal of the debt and interest payments. There is no consensus on what should be the value of this

indicator, but the value of debt to equity ratio of 1:1 is commonly characterised as a conservative, a 2:1 as the debt ceiling. The debt to equity ratio for HNL I clubs in 2014 was 4.84:1, and for HNL II clubs 5.49:1. These values reveal that the borrowing limit has been broken even in the liberal financial framework.

7 CONCLUSION

Comparing the financial position of clubs from HNL I and II, it is clear that HNL I is a league of professional clubs with a total value of players of about HRK 1.3bn. Professional orientation of HNL I clubs is confirmed by the structure of players who are often purchased from abroad in order to achieve top sport results and generate operating revenues. Through such operations, clubs are to a lesser extent representing the public good. Therefore, it is reasonable to question their preferential treatment in terms of structure (organisation), preferential tax treatment and public subsidies.

In addition to the fact that non-profit organizations are generally not liable to income tax, the tax treatment of transfers of players is also questionable.

The financing structure of football clubs is dominated by liabilities. Especially worrying is the fact that of 21 clubs covered by the analysis, 10 clubs have a negative value of capital. Liabilities of Dinamo represent one half of long-term liabilities of all HNL I and HNL II clubs. A large part of these liabilities, which in 2014 increased almost seven times, refers to loans from banks and other creditors abroad.

Quite unfavourable financial position of football clubs in Croatia is confirmed by indicators of liquidity and indebtedness. According to all analysed parameters, clubs generally have a pretty bad financial position. This further indicates the need for urgent regulation of this sector and establishing a stable legal and institutional infrastructure for its long-term sustainability. It is vital to clearly profile the status of football clubs and their organizational structure. For publicly financed football clubs, concrete ways and amounts of funding, but also the purpose of funds collected in such a way should be prescribed.

Financial results and created liabilities point to the fact that football has grown and transformed from financially less important social activity with obvious public benefits into a serious economic branch with increasingly represented private interests. Although only a small fraction of clubs in

Croatia (mostly those from HNL I) passed the transition to a professional sport, it is necessary to clearly delineate the operations of professional and amateur clubs. In line with their status, football clubs should be treated in the system of public financing.

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