



**University of Dundee**

## **Caught in a trap?**

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## **Caught in a trap? Financial Fair Play Regulations and the case of Scottish football**

### **Abstract**

#### **Purpose**

The study investigates UEFA's Financial Fair Play Regulations in the context of the European football industry. It seeks to explore whether these regulations are perceived by member organisations as contributing to the creation of a "poverty trap". In order to do so, this study turns towards what are traditionally perceived as smaller clubs operating in smaller member associations and, in doing so, explores whether the regulations limiting benefactor payments are suitable for smaller leagues.

#### **Research Design**

In-depth semi-structured interviews were conducted with key individuals involved in the management of Scottish football clubs. The Scottish context was chosen because of the disparity in revenues amongst competing teams, and the limited broadcasting revenues achieved in comparison to some other European member associations.

#### **Findings**

Financial Fair Play Regulations are perceived to be an effective tool for monitoring clubs and ensuring financial stability. However, the findings suggest that participants believe that these regulations consolidate the financial position of larger teams who rely on broadcasting and extant brand power for revenue generation. Further, smaller leagues demonstrate a lesser reliance on benefactor payments, and therefore the restriction on benefactor payments inherent within Financial Fair Play Regulations is posited by participants as holding little consequence and/or relevance within the Scottish football context.

#### **Originality**

Most prior studies on Financial Fair Play Regulations have focused on generating quantitative insight into the application of Financial Fair Play Regulations in large, resource-rich European football leagues. Through a qualitative approach, the study provides nascent exploratory insight into FFP regulations from the perspective of smaller leagues.

**Keywords:** Financial Fair Play, governance, regulation, poverty trap, football, soccer

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## Introduction

Over recent decades, European football has grown from humble roots into a multi-billion dollar industry, characterised by the involvement of multiple stakeholders acting in contrast to the idealised ‘traditional’ sporting and sociocultural demands of football fandom (Hewer, Gannon & Cordina, 2017). Accordingly, while base conceptualisations of achievement remain ultimately defined in sporting terms, the industry has become ever-more fixated with financial metrics for success thanks to increased reliance on corporate sponsorship and international investment (Kennedy & Kennedy, 2016). Yet, while European football has undoubtedly changed in recent years, this has not occurred without dissent; widespread fan criticism has invariably been levelled at the power hoarded by super agents, multiple club-owning families, and those involved in the ‘business’ of football more generally (Faraudello & Gelmini, 2019; Rossi, Semens & Brocard, 2016).

Coupled with concerns surrounding the unsustainability of exponentially rising player wages (Carrieri, Principe & Raitano, 2018), this has led detractors to suggest that the industry has become more concerned with profits than passion (Hewer et al., 2017)<sup>1</sup>. This sentiment is reflected in the findings identified by Plumley, Wilson and Shbili (2017), who argue that the objectives of some leading football clubs now differ from those of their core support base (e.g., the Glazer family acquired Manchester United using debt finance, with this viewed as a tentative move towards introducing the American model of profit maximisation into European football club acquisition and governance more generally).

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<sup>1</sup> In 2021, increased financial pressures and rising player wages (Wallace, 2021) have led to calls for a new controversial European ‘Super League’. Unlike Champions League, participation in this league would have been restricted to the largest European clubs in Europe (Wright, 2021)

However, while the aforementioned profit maximisation approach remains the preferred objective for North American sports franchises (Freestone & Manoli, 2017); research demonstrates that the European football industry remains characterised by different aims for the most part. For example, European football clubs typically continue to prioritize sporting success at the expense of reduced economic profits (Solberg & Haugen, 2010; Vrooman, 2015). Illustrating this, average football club revenues grew by 9.8% between 1996 and 2018, yet profits accrued did not follow suit (UEFA, 2019). Instead, in the face of rising revenues, significant levels of debt continue to burden many football clubs, with some suffering substantial and sustained losses in pursuit of sporting success (Dimitropoulos, 2016; Storm & Nielsen, 2012). However, while the existence of blanket rules governing European football suggests a degree of homogeneity across the sector (Vamplew, 2007; King, 2017); the volume of debt accrued by football clubs is not consistent across geographical borders. For example, for the financial year ending 2017, the aggregate net club debt within the Italian Serie A amounted to 62% of total revenues; roughly £67.4m per club. Yet, in the German Bundesliga, total net debt was only 6% of total revenue; an average of £8.7m per club (UEFA, 2019).

Against this backdrop, and with the aim of promoting financial viability in European football, UEFA issued the Financial Fair Play Regulations (FFP) in 2010, with sanctions enforceable at the conclusion of the 2013-2014 season. The regulations were introduced as an attempt to enforce financial discipline in member associations (and, by extension, their member clubs) by setting acceptable limits on the financial losses allowed, and restrictions on the level of and number of permissible cash injections provided to clubs by outside investors (Gallagher and Quinn, 2019). In its 2017 Club Licensing Benchmarking Report, UEFA reported a decline in net debt within member clubs from 65% in 2009 to 34% in 2017, accompanied by an aggregated

increase in bottom line profits of over 136% (UEFA, 2019). This significant reduction in net debt was hailed as a success for FFP, with UEFA suggesting that its member associations were now in a healthier position and making progress along the path to financial sustainability (UEFA, 2019). Consistent with this, some argue that the introduction of FFP legislation has increased competitiveness within the European football industry, serving as a supplementary benefit alongside future financial sustainability (Freestone and Manoli, 2017).

Yet support for the efficacy of FFP remains generally muted, with the scheme facing recurring criticism from a range of stakeholders. For example, FFP's focus on larger teams playing in the top-level European competitions has led some to question whether 'fairness' (predicated on teams spending within their means) has indeed increased (Szymanski, 2014), with others going so far as to contend that FFP breaches European Union competition regulations (Lindholm, 2010). Further, Gallagher and Quinn (2019) argue that FFP may simply serve to protect larger clubs within wealthier and more prominent European leagues. These clubs tend to be more successful both on and off the pitch, and are thus able to generate substantial supplementary (i.e., out-of-competition) income thanks to increasingly lucrative sponsorship deals and commercial partnerships, alongside competition prize money, unlike traditionally smaller, less-established clubs. This, in turn, reduces their reliance on cash injections and benefactor payments.

Nevertheless, several studies have shown an improvement in the competitive balance of football leagues following the introduction of FFP regulations. For example, Freestone and Manoli, (2017) demonstrate evidence of increased competitiveness in the English Premier League, while Ghio, Ruberti and Verona (2019) contend that FFP has reduced the efficiency gap between larger and smaller Italian football clubs. That being said, discourse typically focuses on

investigating the impact of FFP within the context of leading European football leagues; with the benefits and criticisms of increased financial accountability framed accordingly. However, this study seeks to explore the effect of FFP in an overlooked setting; investigating how effective and adequate FFP regulations are perceived to be within the context of Scottish football.

This context may provide fresh perspectives on FFP as, for example, the country's top tier - the Scottish Premier League (SPL) - serves as an example of a competition with large deviations in revenues and wages paid to players. For example, Mackenzie (2017) reports that the wealthiest football club (Celtic F.C.) pays its playing staff an average salary of £735,040 per annum<sup>2</sup>, whereas teams that typically occupy lower positions in the league table (e.g., Hamilton Academical F.C.) pay playing staff less than £42,000 per annum on average. Further, the broadcasting revenues generated by other top leagues in Europe eclipse those of the SPL; in 2017, broadcasting revenue accounted for £2.9 billion in the English Premier League and only £0.02 billion in the neighbouring SPL (UEFA, 2019). In addition, moving down the competitive football pyramid, many playing staff for teams operating within the Scottish professional football leagues are employed on a part-time basis, with football clubs therein typically attracting very low average attendance numbers on match-days (Morrow, 2006).

Nevertheless, despite its aforementioned financial challenges and discrepancies, Scottish football is resilient. For example, of the ten member clubs that have entered administration since 2000, only two are no longer registered with the nation's governing body (the Scottish Professional Football League (SPFL)), with the remainder 'bouncing back' in sporting terms to compete in one form or another (Adams, Morrow & Thomson, 2016). Yet, despite its perceived resilience, Scottish football remains relatively uncompetitive with regards to sporting honours,

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<sup>2</sup> This is in contrast to the English Premier League, where in 2019, the average salary amounted to £3million (Kennedy and Kennedy, 2021)

with two internationally-recognised member clubs (Celtic F.C. and Rangers F.C.) dominating the competitive landscape (Morrow, 2016). As such, through semi-structured interviews with club directors, this study seeks to explore whether those involved in managing smaller clubs within the Scottish football context believe that the current FFP regulations create a 'poverty trap'. In doing so, it also explores whether FFP regulations contribute towards maintaining the status quo of dominance from 'larger' teams, restricting competition and opportunities for growth in the process. Finally, the study investigates whether existing regulations surrounding benefactor payments are considered suitable within the context of Scottish professional football, given the financial challenges associated with membership of a smaller football association and league system.

## **Literature review**

### ***The financing of professional football clubs***

The football industry is underpinned by relatively clear and structured processes for measuring sporting accomplishment, with the success of financial investments often playing second fiddle to on-pitch achievements (Freestone & Manoli, 2017). To this end, budding investors have traditionally acquired weaker teams with the aim of promoting them to higher leagues, seduced by the economic bounty that goes hand-in-hand with competing at a higher level, alongside the adulation of being the man or woman behind an unexpected climb to the top. For example, within the Scottish football context, with an estimated £8m investment in Gretna F.C., Brooks Mileson achieved an unprecedented three consecutive football division promotions, which saw him hailed as a local hero until personal circumstances cut the club's fairy-tale short (Hamil & Morrow, 2017).

However, recent years have witnessed a change in the nature of inward investment in football clubs. Once the preserve of wealthy local businessmen, such as the aforementioned Mileson (Hamil & Morrow, 2017), the European football industry is now characterised by significant investor interest in clubs they have little prior involvement with. Accordingly, emphasis is placed on acquiring and investing in clubs located outside of the traditional confines of one's geographical locale (Bi, 2015). This is indicative of the financial liberalism of the contemporary European football industry more generally, where recent years have seen the sport become the 'plaything' of a hyper-wealthy cohort of private investors.

These 'sugar daddies' (SDs) have taken to financing clubs through interest free loans (e.g., Mike Ashley, Newcastle United; Roman Abramovich, Chelsea), with others underpinned by the significant economic potency that emerges concomitantly with foreign state-ownership (e.g., Qatar Sports Investments, Paris Saint Germain). Yet, whilst increasing debt levels, these investments often remained distinct from the profitability of the clubs in question (Rohde and Breuer, 2018<sup>3</sup>). For example, by June 2009 (two years post-takeover), the aforementioned Mike Ashley had provided £238 million in unsecured soft loans to Newcastle United; yet in his first year as club owner the club reported losses of around £34 million (Scott, 2009).

Nevertheless, debate remains with regards to whether artificial sporting advantage brought about by external investment is a necessary evil for sustaining competition across the wider industry, providing the financial impetus necessary to allow 'less-established' clubs to compete against a time-honoured cabal of international footballing heavyweights (Schubert & Könecke, 2015). Rohde and Breuer (2017) expand upon this, arguing that football clubs unable

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<sup>3</sup> Using a sample of English Premier League teams, Rohde and Breuer (2017) show that although teams with private majority investors had the ability to pay higher wages, these clubs tend to be less profitable than clubs with other ownership structures.



to generate revenues as a result of their less-pervasive ‘brand’ require external investment to survive. Further, Acero, Serrano and Dimitriopolous (2017) argue that such foreign investment can increase professionalism in the daily operations of the clubs. Indeed, since the arrival of Mohamed al Fayed at Fulham F.C. in 1997, non-domestic investment has swelled within the English professional football leagues with around 60% of English Premier League and Championship clubs now owned by foreign investors (Rohde and Breuer, 2017).

Despite its pervasiveness, foreign ownership has nevertheless been met with opposition from local fans, who perceive it as a threat to the identity of the club (e.g., the considerable opposition faced by the Glazer family following their takeover of Manchester United in 2014 (Bi, 2015)). Given the industry’s prevailing emphasis on locality, tribalism, competition, and identity (Hewer et al., 2017), it is perhaps unsurprising that the perceived commercialisation of football has inspired discontent in some quarters (Bi, 2015; Hewer et al., 2017). However, Bi (2015) explains that existing fans are often more supportive of foreign investment in their football club if this is followed by on-pitch success. Yet, some argue against the legitimacy of this action (Iorwerth et al, 2018), with inward investment viewed as artificially ‘buying’ victory by spending significantly more than they could otherwise afford. This practice, commonly referred to as ‘financial doping’ (Schubert and Hamil, 2018), was one of the drivers for the implementation of UEFA’s FFP Regulations.

### ***The Financial Fair Play Regulations (FFP)***

Under FFP regulations, UEFA requires clubs to implement the ‘breakeven rule’ (Article 58, UEFA, 2018). This requires football clubs to match relevant revenues with relevant expenditure

and show a breakeven position at ‘year-end’. The expenses and revenues constituting relevant income and expenditure are defined within the regulations. Clubs are allowed to spend up to €5 million over and above what they earn over a three year period. From 2015 onwards, if covered by a contribution from the club owner or a related party, it is permissible for this figure to rise to €30 million (UEFA, 2018). Certain expenditures, such as investment in training facilities and youth development, are exempt from breakeven calculations.

UEFA notes that the breakeven rule is only applicable for teams with costs and income greater than €5 million in the two years before any participation in continental competitions (e.g., the UEFA Europa League; the UEFA Champion’s League). However, FFP regulations still require all clubs within member associations to submit financial data, with this in itself postulated as indirectly leading to improved economic conduct across the sector due to the associated increase in attention and scrutiny paid to clubs’ financial statements (UEFA, 2019). Further, in order to retain a UEFA licence (i.e., approval to participate in the aforementioned continental competitions), clubs are required to ensure that they have no overdue payables in respect of club transfers, employee wages, and payments to domestic tax authorities (UEFA, 2018).

While the purpose of FFP regulations appear appropriate in theory – encouraging football clubs to spend within their means while still allowing for a degree of inward investment in order to underwrite marquee signings or major infrastructure projects - their implementation in practice has faced criticism. For example, Szymanski (2014) questions the ‘fairness’ of FFP and argues that the regulations have the potential to stimulate further inequalities between clubs. Gallagher and Quinn (2019) echo this sentiment, contending that FFP may simply protect larger, better-established football clubs by creating a ‘poverty trap’ for their smaller, non-elite counterparts. In

other words, for a small club, the inability to generate significant revenues internally, the restrictions on external revenue from outside investment, and the allowable wages paid by larger clubs to playing staff, may combine to serve as barriers to sporting success.

Advocates of FFP argue that the regulation was introduced with the aim of introducing financial discipline as FFP aims to minimise distorted financial results previously concealing significant unsustainable losses which were covered by substantial benefactor payments (Freestone and Manoli, 2017). However, several scholars argue that FFP regulations have instead consolidated the position of larger clubs, many of which demonstrate greater financial independence and are able to generate substantial amounts of revenue from broadcasting and sponsorship deals (Franck, 2018; Gallagher and Quinn, 2019; Plumley, Ramchandani and Wilson, 2019, Szymanski, 2014). This contrasts with smaller clubs, who often rely on the support of benefactors and have limited additional opportunities for revenue generation (Plumley et al., 2019). Critics of this argument contend that FFP regulation was not designed to directly reduce the polarisation between larger and smaller clubs, with this instead often be attributed to other factors, such as technology and globalisation (Franck, 2018).

Nevertheless, recognising the fierce drive to accumulate external resources characteristic of professional European football over recent decades (Wilson, Plumley and Ramchandani, 2013), and subsequent moves undertaken by the industry's governing body to control over-spending, this study draws upon resource dependency theory (RDT) to generate a nascent understanding of the impact of one-size-fits-all top-down regulations within the often overlooked context of a minor European football league. RDT suggests that in order to accumulate the resources necessary to compete within a given industry, organisations must “develop relationships with, and gain funding from, other organisations and individuals, increasing their

dependence on those sources” (Cordery, Sim and Baskerville, 2018, p.53). Given the competitive nature of the European football industry, both within and across borders, and the inherent resource scarcity therein, RDT can be used to explain some of the opposition towards FFP, as without external resources clubs may struggle to survive (Omondi-Ochieng, 2019). Further, RDT recognises the significant role regulatory bodies can play in shaping the nature of resource accumulation and maintenance (Vos et al., 2011), with the prescription of top-down policies, procedures, and legislation an enduring yet ever-evolving component of contemporary European football. Nevertheless, FFP regulations largely remain sound in spirit; seeking to provide stability and legitimacy for the sport (Lucidarme, Babiak and Willem, 2018).

### ***Benefactor Payments & the ‘Poverty Trap’***

According to RDT (Pfeffer and Salancik, 1978), organisations (including football clubs) are typically unable to generate all resources required to compete internally. As such, smaller football clubs would traditionally sustain losses via financial injections from ‘Sugar Daddies’ (SDs) (Rohde & Breuer, 2017; Sass, 2016). To this end, Vöpel (2013 p.13) argues “the persistent effect of the initial success and the size of the local market on future success can only be offset from additional sources”. In the football context, **SDs refers to contributions made by wealthy investors without regard to the financial sustainability of the club (Freestone and Manoli, 2017; Franck, 2018; Sass, 2016; Szymanski, 2014).**

The introduction of FFP regulations sought to limit the ‘unfair’ competitive advantage gained by clubs benefiting from SD investment (Rohde and Breuer, 2017). Indeed, it has been argued that SDs allow “some clubs to buy instant success bankrolled by foreign millions”

(Wilson, Plumley and Ramchandani, 2013 p.25). However, a 2015 amendment allowing losses of up to 30 million to be covered by a contribution from the club owner has arguably restricted the effectiveness of such regulation. Further, Franck (2014) and Petit (2015) argue that such regulations are in breach of the Treaty of Functioning of the European Union because they seek to limit investment. **Despite these claims** proponents in favour of FFP argue that the regulation serves as a key component of the industry's quest for sustainability more generally - introduced in order to limit investment which cannot be sustained by increased revenues alone (Petit, 2015).

**Further**, it has been argued that under such regulations smaller clubs may not be able to match relevant revenues with relevant expenditure over long period of time, and may not be able to compete with larger elite-clubs, creating a so-called 'poverty trap' (Knight, 2013; Franck, 2018; Menary, 2016; Vöpel, 2013). Gallagher and Quinn (2019) explain that this should not have been viewed as an unexpected consequence of FFP regulations, as it is consistent with the private interest theory of regulation (Peltzman, 1976). To this end, they argue that FFP regulations consolidate the position of larger, commercially independent clubs by encouraging them to operate in a more efficient manner.

Within the Scottish context, Giulianotti (2005) discusses the disparity between club revenues within smaller leagues. Here, we note that for example Hamilton Academical are unable to charge the same season ticket prices as Rangers F.C. If after a period of success, the wages of a player increase, the club is forced to sell those players irrespective of how crucial they are to future successes in order to meet FFP criteria (Vöpel, 2013). Similarly, Szymanski (2014) argues that FFP consolidates the position of larger, more established clubs which are able to generate revenues from a wider variety of sources. With this in mind, Knight (2013) identifies

the relative spending power those drawing upon competitive sponsorship deals and broadcasting revenues can enjoy.

Further, due to lower revenues, clubs from smaller, lower-ranked leagues (including the Scottish professional football leagues) remain unable to compete in the wider transfer market with clubs within more established European leagues (Knight, 2013). It has also been argued that while smaller clubs may be significantly affected by FFP penalties, the penalties administered to larger clubs may not be large enough to serve as a deterrent to overspending given their significant revenues (Knight, 2013).

Yet, in contrast to these arguments, in a study of the Italian football leagues, Ghio, Ruberti & Verona (2019) highlight that the cost efficiency gap between clubs which participate regularly in European competitions and those which do not, has decreased following the introduction of FFP legislation. Further, Rohde and Breuer (2018) argued that the penalties do ultimately favour the clubs which operate more efficiently within the rules of FFP. To this end, much remains unknown with regards to the implementation of FFP regulations across the board more generally. Accordingly, this study turns to those running smaller clubs within a smaller football league system (Scottish professional football) to explore under-researched perspectives on the impact of FFP on club governance.

## **Research Methodology**

The majority of prior studies into the efficacy of FFP regulations do not seek to interview directors of smaller football clubs. However, much of the criticism surrounding FFP is centred on whether the regulation has actually contributed to increased fairness within the domain of

professional European football leagues in real terms (Szmanskyi, 2014). These prior studies were typically present either a general critique of the potential impact of FFP (e.g., Szmanskyi, 2014), quantitative insight into the effects of financial fair play after its introduction (e.g., Dimitropoulos, 2016; Gallagher & Quinn, 2019), or legal studies investigating the regulatory impact and aptitude of the regulation (Lindholm, 2010). Prior research typically also focuses on exploring the phenomena within larger leagues, such as the English Premier League (Freestone & Manoli, 2017; Iorwerth et al., 2018).

This study therefore adopts an exploratory approach, underpinned by 7 semi structured in-depth interviews with directors of professional Scottish football teams. This sample provides representation to 17% of the 42 professional football clubs competing across four tiers of Scottish football (Morrow, 2006). **The participants included directors from some of the larger and medium sized clubs therein, some of which have participated in European football competitions in recent years, alongside some participants from a number of traditionally smaller, less-successful teams in the Scottish Premier League and the lower leagues. The sample does, however, exclude the two largest clubs Scottish professional football clubs (Rangers F.C. and Celtic F.C.) in order to maintain the focus of the study.**

The Scottish context is particularly relevant when considering the core objective of this study – to explore the perspectives of smaller clubs in smaller leagues with regards to the relevance and efficacy of FFP regulations. For example, while the Scottish professional football leagues boast significantly smaller revenues when compared with some of their more popular European counterparts, **there is also a considerable financial disparity between the two largest clubs (Celtic F.C. and Rangers F.C) and the other 40 clubs operating at a professional level therein (Giulianotti, 2005).** For example, apart from Celtic and Rangers, only three clubs have

revenues which exceed £10m (Heart of Midlothian, Hibernian, and Aberdeen); with many of the other clubs operating within the country's top tier reporting revenues ranging between £5m to £10m (McLeod, Shilbury and Ferkins, 2021).

With prior studies primarily focusing on the larger European leagues (Freestone & Manoli, 2017; Iorwerth et al., 2018), where the disparity in revenues may prove less significant, the focus of the study on Scottish football thus seeks to provide hitherto unseen insight into FFP in a different, under-explored context. Yet, as is typical within many national football associations, the Scottish FA does not apply FFP regulations as a distinct set of rules to be followed in isolation, instead loosely incorporating them into national club licensing protocols. However, the nuanced nature of the Scottish football context, dominated by a small cohort of clubs, may limit the influence of the FFP regulations to those clubs which “have qualified on sporting merit for a UEFA club competition” (SFA, 2019, p.62).

A snowball approach to sampling was used in line with the exploratory nature of the research objectives (Anagnostopoulos, Byers & Shilbury, 2014; Cordina, Gannon & Croall, 2019). This approach was necessary due to projected initial difficulties associated with getting access to the senior management in football clubs. Consistent with the developed nature of the industry more generally, football club gatekeepers (such as public relations departments) are often a barrier to access senior management (Thomas, 1993). The snowball approach provided access to a greater number of interviewees, many of whom would have otherwise been difficult to contact (Atkinson & Flint, 2011).

Interviews lasted approximately one hour on average and were conducted between January and March 2018. The decision to halt data collection via further interviews was based on data saturation; following these interviews, it was determined that the interview data was



becoming increasingly repetitive and less useful, with limited new information emerging (Guest, Bunce and Johnson, 2006). The interviews were digitally recorded and transcribed verbatim on the same day throughout the data collection process. In order to protect confidentiality, all transcripts were anonymised, and each interviewee was assigned the moniker 'I' followed by an associated numerical value (d'Arripe-Longueville et al., 2001). This code was then used to attribute quotations in the analysis while retaining anonymity in line with participant expectations.

While a bank of themes and questions drawn from literature was prepared in advance of the interviews in line with the template approach to data collection and analysis (King, 2004) (**Table I**); the semi structured approach allowed the interviewer to adapt the line of questioning and tweak the order of enquiry dependant on the flow of the conversation, while simultaneously allowing for opportunities to further probe participants when necessary (Rowley, 2012).

#### **[Table I]**

As such, in line with prior studies in the area (e.g., Cordina, Gannon & Croall, 2019), the template approach to thematic analysis was used to analyse the interviews. The main themes (the poverty trap, sugar daddies, the breakeven requirement, and recommendations for future amendments to FFP regulations), which together combined to structure the interview guide, were initially used as the template through which to conduct a nascent analysis of the interview responses (King, 2004). These themes reflected analysis of prior literature in the area. However, following initial analysis of the transcribed interview data and, consistent with the analysis approach, the themes in the initial template were tweaked in order to better reflect the objective of the study. Whilst two main themes (the poverty trap; sugar daddies (benefactor payments))

were retained, the other previously identified themes were grouped together as ‘broader issues relating to FFP’ during the analysis process (Symon and Cassell, 2012).

## **Findings and Discussion**

### ***Financial Fair Play***

Overall, the findings revealed that all respondents agreed that FFP has the potential to serve as an effective tool for monitoring the financial conduct of clubs and ensuring that clubs maintain economic stability (cf. Franck, 2018). To this end, one respondent supported the appropriateness of clear and consistent top-down regulations, surmising that ‘*FFP gives a stable measure by which all clubs can be monitored*’ (I1). However, despite supporting FFP in principle, another participant drew attention to the reality of increased financial regulation. Here, emphasis was placed on the administrative burden associated with increased self-monitoring, while also demonstrating that support and reassurance is available from the domestic football association:

‘We all go through the Premiership and SFA [Scottish Football Association] licensing process each year ... as part of that we have to prepare half-year financial statements and forecasts for the next 18 months to comply with UEFA FFP rules. The SFA assess that and sign off that we have done that. Without that we would not be able to enter European competitions’ (I2)

However, some respondents expressed concerns with regards to the whether FFP regulations really do ‘even up the playing field’, suggesting that “*bigger clubs find ways to bypass the regulation*” (I3). This echoes Sims (2018), who expressed concerns about loopholes relating to the financing of clubs via parties related through ownership (e.g., Manchester City securing sponsorship deals from Emirati airline Etihad Airways when the owner is a member of

the UAE royal family). In addition to these potential loopholes, larger clubs appear to be seeking settlement of breaches of FFP quickly out of tribunal with minimal detriment to the status of the club (Franck, 2018).

Accordingly, some participants held a more critical view with regards to the ‘one size fits all’ approach posited by the FFP regulations. As interviewee I7 highlights, *‘it is difficult for regulations to accommodate the difference in levels [different leagues] and budgets’*. As such, the findings suggest that there is cognizance of the challenges facing European football’s governing body, and that there is appetite amongst those running smaller clubs within smaller football leagues for a more bespoke approach to financial auditing. Yet, while universal regulations may prove perhaps more convenient from an administrative standpoint (see Vöpel, 2013’s discussion on the costs of implementing and monitoring FFP), the findings suggest that this approach overlooks the nuances of professional football outside of those clubs competing in marquee events at a national or continental level (cf. Szymanski, 2014). To this end, participant I4 argued that:

‘[One] should really have thresholds, there should be tiers ... Maybe there should be Gold, Silver and Bronze tiers... I would section it that way because you can’t possibly have the same governance and the same parameters governing the top teams in Europe.’  
(I4)

More specifically, some respondents cited examples of criteria within the FFP regulations aimed at ensuring that teams which regularly compete in European football’s showcase tournaments adhere to basic standards (e.g., stadium size). In doing so, the participants were again eager to emphasise the futility of universal regulations and the potential negative impact of FFP regulations. Here, there was consensus that adhering to FFP could expose smaller

clubs within marginal contexts to unnecessary further expense, in addition to the extant financial pressures which go hand-in-hand with being a smaller club within a smaller league (Knight, 2013), irrespective of their place and potential to grow within the existing European football landscape:

‘Clubs end up in a ridiculous situations, such as Brechin City, where they [SFA] said the pitch isn’t wide enough to play in Europe – they can’t really do anything about that and are they ever going to play in Europe?’ (I5)

### *A Poverty Trap?*

Knight (2013) and Menary (2016) argue that as a result of FFP legislation, richer and better-established European football clubs will consolidate their positions, whereas smaller clubs will have little opportunity to progress and grow to compete at the highest level, and instead retain their existing positions lower down the competitive footballing landscape. As a result, there is debate about whether, in their current guise, FFP regulations have created what is commonly referred to as a ‘poverty trap’ (cf. Knight, 2013, Menary, 2016; Vöpel, 2013; Ghio, Ruberti & Verona, 2019). Echoing extant literature, the study findings reveal mixed views from the perspectives of the interviewees as to whether FFP has created a “poverty trap” in their own context. One respondent gave the example of Leicester Football Club, which managed to win the Premier League in 2015-2016 as the counterpoint to the poverty trap, **having triumphed** in the face of a better-resourced and better-established cohort of domestic competitors. Yet this was balanced by the assertion that it remains difficult for non-elite clubs or clubs in perceived smaller leagues to improve their standing on both a domestic and continental stage:

‘As Leicester proved a few seasons ago smaller clubs with less resources can break the mould, but it’s about maintaining that position and building upon the on-field success commercially.’ (I1)

This is nonetheless not necessarily attributable to FFP regulations, and is perhaps instead a fact of life for smaller clubs; there will always be more popular, better-financed, and better-established alternatives given the nature of competitive football. As a result, not all football clubs will have an equal chance of competitive success. To this end, one respondent argued that all Scottish football clubs should recognise that they are relatively small in comparison to the larger European clubs, and that they should budget accordingly, irrespective of FFP:

‘We are what we are size wise, and we have to accept that... at the end of the day, you have the fan base you have and you have the commercial income you have – we can’t be asking other, bigger clubs to contribute’ (I2)

Nevertheless, another participant suggested that smaller clubs often find it increasingly difficult to compete with larger domestic counterparts as a result of the breakeven rule (within FFP regulations) and the inequitable distribution of broadcasting revenues therein (cf. Szmanskyi, 2014):

‘If by poverty trap you mean restrictions on what they can achieve [then] yes. They will find it increasingly difficult to compete with larger teams with bigger resources’ (I6).

Further, while recent years have witnessed a clear and significant increase in football club revenues for the most part, club expenditure - particularly with regards to wages provided to playing staff – has also increased dramatically (Knight, 2013). The respondents suggest that this may be partly attributable to the increased marginalisation of smaller clubs across Europe

(Szmanskyi, 2014), with one participant stating that he believed that the consolidation of power the European football industry is currently witnessing (cf. Panja, 2019) is, at least in part, stimulated by the drawbacks of extant FFP regulations:

‘Top clubs are almost veering towards a Super League, with the broadcasters getting behind that. The rest [smaller clubs] won’t be cut adrift entirely but the tail of European club football will get longer’ (I4).

Overall, all respondents argued that there was a case for fairer distribution of competition income and prize money at both a domestic and continental level. However, this is not directly related to FFP regulations; *“the argument would be whether too much money in particular [from] the Champions League goes to the bigger clubs, I would like to see a fairer distribution of that money – that creates a poverty trap, not FFP”* (I3). Again, this appears to echo Szymanski (2014) and Menary (2016), who contend that the manner in which the governing body (UEFA) distributed continental competition income serves as the most influential and significant factor impacting upon the opportunities to grow and compete available to smaller clubs in smaller domestic leagues.

The findings also echo Plumley et al. (2019), who suggest that with a breakeven rule focused on football-related revenue, clubs without the ability to generate substantial amounts of revenue will struggle to compete. Indeed, Menary (2016) calls for a 50:50 split of UEFA prize money between successful and unsuccessful clubs, with this posited as one way to reduce the poverty trap faced by teams competing in lower ranked European leagues. The potential efficacy of this approach is further highlighted by Knight (2013), who argues that success for smaller and less established teams can only conceivably be achieved if they overspend, breaching FFP regulations in the process.

## ***Benefactor Payments***

Within the context of the Scottish Professional Football League, the effect and prevalence of Sugar Daddies (SDs) has traditionally been limited<sup>4</sup>. Therefore, it is perhaps of no surprise that there was consensus amongst participants with regards to the need to restrict monetary injections. This emerged in line with the RDT (Pfeffer & Salancik, 1978), with the findings suggesting over-riding agreement that football clubs cannot survive unless funding is sustainable (Omondi-Ochieng, 2019). The findings suggest that this is partly driven by concerns surrounding sustainability, where restricting monetary injections can go some way to ensuring financial stability (e.g., Rode and Breuer, 2017):

‘Many times a club has been bust and player contracts are owed and the owner just walks away ... it probably puts off investment of people who you would rather weren’t investing in football in the first place’ (I2).

As one respondent argued ‘owner investment, soft loans and gifts are not mechanism that can be used to promote sustainable growth’ (I6).

However, in contrast to the prevailing narrative, one participant argued “*there is a question of why should we restrict these people [investors] ... It’s their money, they are self-made...multibillionaires. It makes you think it’s a free market economy and if somebody wants to spend their millions in a football club they should be fine*” (I4). This respondent suggested that this represents an oversight and an unnecessary attempt at hampering market forces within the

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<sup>4</sup> Although in the past there have been a few notable exceptions (e.g. the case of Gretna FC), Adams et. al (2016) explain how in recent years, there has been a move towards less traditional ownership structures, and note that that within Scottish football “there is an apparent absence of the ‘traditional owner’, an individual willing and able to take on the ownership and financing of a club.” (p.4).

football industry. Nevertheless, the findings reveal consensus that had such investment materialised in an alternative industry, few would seriously call to restrict the investment:

‘Would you stop somebody investing in a widget factory that’s down on its luck and struggling to make a profit – of course you wouldn’t. The investor would be welcomed with open arms so why not in football?’ (I4).

Indeed participants I3 & I4 explained that investors may have motives beyond football for their investments and would not be put off by regulation “*most investors are investing to enhance their ego and other business opportunities*” (I3). Further, the findings reveal that there was belief that investors were attracted to clubs which are financially stable, and therefore by imposing FFP regulations and ensuring financial prudence investors may be more willing to invest. Echoing the findings herein, Szymanski (2014) argued that SDs have led to an improvement in the quality of the ‘product’ within the football industry – in both sporting and infrastructure terms. Additionally, Szymanski (2014) contends that investors may have incentives to increase efficiency within clubs. Prohibiting investors from investing in European clubs would simply mean that they may pursue investment opportunities elsewhere. Even within Scottish context, interviewees argued that if investors did not believe that a football club was sustainable, they would not have invested in the first instance:

‘Would you invest in a business that continually lost millions on an annual basis? The majority of clubs have balanced their books and are recording profits; they have begun to exploit new commercial activities to increase revenues and are far more professional and strategic in their approach to player recruitment. For all the negative surrounding FFP or financial regulations there are underlying benefits that have impacted the way clubs do business’ (I1).



Respondents also called for greater transparency with regards to the disclosure of benefactor payments – *“there should be a statement of every single transaction between the owner and the club – say if he puts in £20m in naming rights, but they are only worth £2m; that is £18 million of additional income. It has to be absolutely transparent”* (I2). Yet, the findings suggest that within the Scottish football context, particularly within the lower tiers of competition, there remains less of a reliance on benefactor payments:

‘Very often at that level, it’s more about the community in which the club operates. At a lower league, these people are doing for the love of the club...directors are supporters of the club – they were fans before they became directors and owners’ (I4).

As such, the monetary contribution by investors within this context may not be aimed at providing instant on-field success (Wilson et al., 2013) and, at this level, the concept of football as a ‘business’ could prove less relevant (Freestone and Manoli, 2017). In contrast, our findings show that outside of the larger teams, the limited monetary injections provided by benefactors may prove consistent with expectations surrounding football fandom and the community spirit exhibited within less-commercialized leagues (Hewer et al., 2017), and not necessarily a profit motive. This is in direct contrast with Freestone & Manoli (2017)’s discussion of the profit maximising approach adopted by a number of sports franchises throughout North America.

Accordingly, the findings are potentially indicative of the governance structures in teams in smaller leagues. Consistent with RDT, the structure and behaviour of football clubs is influenced by the resources available (Omondi-Ochieng, 2019). Moreover, prior studies by Andreff (2007) and Scafarto and Dimitropoulos (2017) have examined the relationship between financial performance and the governance structure of football clubs across Europe. When weaker governance structures are in place, investors are more likely to focus on maximising

wins, rather than financial stability, with this not necessarily reflected across our exploratory findings.

## **Conclusion**

The study sought to explore viewpoints on FFP within the context of ‘smaller’ European football leagues – with a specific focus on professional football clubs within the Scottish context. Through semi-structured interviews with club owners and directors, the relevance of FFP within this marginal context was explored. In particular, an attempt was made to determine whether the regulations are of benefit to smaller teams and whether FFP has created a disparity between the larger, better-established European clubs and their smaller, less-resourced contemporaries.

Overall, all participants agreed that extant FFP regulations serve as an effective monitoring tool. However, many suggested that, in their current guise, these regulations were better suited to ensuring that wealthier clubs competing in traditionally larger leagues were not acting in a financially unsustainable manner. Yet the findings also reveal that participants feared that larger clubs may be able to find ways to bypass these regulations, further increasing the distance between the ‘haves’ and ‘have-nots’ which has come to characterise the modern football industry (Sims, 2018). Given the revenue structure of teams competing within the Scottish football context, and the limited worldwide ‘brand recognition’ associated with smaller teams in these leagues in general, the findings highlighted that teams may not survive without the necessary outsider financial injection (in line with the resource dependency theory (Pfeffer & Salancik, 1978)).

However, within the context of the Scottish football, outside injections are unlikely to exceed the thresholds set by UEFA. Limited global interest coupled with low broadcasting

revenues (Morrow, 2006) means that outside of larger teams, football club financing often relies on fandom and the community spirit. The findings suggest that, consistent with RDT, those managing the participating football clubs recognise the difficulties associated with securing outside financing, with this likely to constrain their success when compared with that associated with those operating within larger leagues. Nevertheless, many contend that they have managed to adapt their structures and strategies to ensure their survival. Indeed, while FFP within the Scottish context is not perceived as an insurmountable obstacle to outside investment, it is also not considered as being conducive to increased ‘fairness’.

As such, the findings suggest that FFP is perhaps unsuited to those teams competing in smaller leagues in its current guise, with some interviewees suggesting that this regulation is more likely to protect larger clubs in line with the ‘private interest theory of regulation’(Peltzman, 1976). In other words, the breakeven rule is seen as a means to of preventing smaller clubs from progressing whilst maintaining the status quo and lofty position long enjoyed by larger, better-established clubs. Whilst larger European clubs receive significant broadcasting revenues, smaller clubs may not be able to generate the revenues required to compete with larger European clubs who are able to regularly engage in multi-million dollar player transfers (Franck, 2018)

Our findings encourage football’s governing bodies to consider introducing specific provisions in the regulations aimed at safeguarding the interests of smaller clubs/leagues. Even within smaller leagues such as the Scottish Premier League, regulatory bodies must consider a tiered approach; one which considers the interests of the smaller clubs whose revenues fall far short of those of larger clubs competing within the same league and governed by the same administrative ruleset.

Finally, while this study provides nascent insight into industry perspectives of FFP regulations within an under-researched and often overlooked context, it is constrained by a number of limitations. First, emphasis is placed on the impact of Europe-wide FFP regulations within the football industry of one country, Scotland. While this context was selected based on its core characteristics (e.g., two dominant teams and limited broadcasting revenues), this may not be representative of other smaller leagues which do not have a similar structure. Future research could broaden the study to other member associations under the governance of UEFA (and thus also subject to FFP regulations), which would enable comparison between different leagues.

Further, the study focused on the perceptions of the administrative management of smaller football clubs. In future work, the viewpoints of larger football clubs and their suggestions for increasing competition could be sought. This would again provide a broader picture of the effectiveness of FFP regulations within a different context in Europe. Nevertheless, this study serves as an exploratory antecedent to developing a more robust understanding of the perceived impact and influence of FFP on football club operations. It therefore encourages future work into identifying the nuanced perspectives on FFP regulations across multiple contexts, in the hope that football industry scholars and practitioners alike will gain greater insight into whether one-size top-down financial conventions are adequate for all FIFA member associations; a crucial prerequisite to identifying potential improvements to existing FFP regulations.

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