

**Eleventh Study**

**The effect of financial management and  
performance of football clubs in Saudi Arabia**

**By**

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### Abstract:

The purpose of the study was to investigate the effects of financial management on the performance of football clubs in Saudi Arabia. Financial management has been barely investigated as most football clubs have not considered it as a major strategic practice. The sample used comprised of management personnel of football clubs. The study focused on how financial management influences the performance of football clubs in Saudi Arabia.

The study adopted a descriptive research design. The population of this study was 100 leaders of the top football clubs in the Saudi Professional League. Purposive sampling was used to draw a sample size of at least 10 managers of all football clubs as per the league standings. The data collection exercise was carried out in the month of December, 2019. The data analysis was done using descriptive statistics and regression analysis. The study revealed that financial performance significantly influences sports performance. Additionally, the results showed that good club financial results result into improved sports performance results.

**Keywords:** Financial Management- Performance of Football Clubs - Saudi Arabia

### أثر الإدارة المالية وأداء أندية كرة القدم في المملكة العربية السعودية

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الملخص:

هدفت الدراسة للتحقيق من أثر الإدارة المالية وأداء أندية كرة القدم في المملكة العربية السعودية. وقد تم التحقق هذا الأثر الذي أحدثته الإدارة المالية لأن معظم أندية كرة القدم لم تعتبرها ممارسة استراتيجية رئيسية. وتكونت العينة المستخدمة من موظفي إدارة أندية كرة القدم. وقد ركزت الدراسة على كيفية تأثير الإدارة المالية على أداء أندية كرة القدم في المملكة العربية السعودية.

واعتمدت الدراسة على التصميم الوصفي. وتشكل مجتمع هذه الدراسة (١٠٠) من قادة أفضل أندية كرة القدم في دوري المحترفين السعودي. وتم استخدام العينة الهادفة لسحب عينة بحجم ما لا يقل عن (١٠) مديرين من جميع أندية كرة القدم وفقاً لترتيب الدوري. وتم تنفيذ عملية جمع البيانات في شهر ديسمبر ٢٠١٩. وتم تحليل البيانات باستخدام الإحصاء الوصفي وتحليل الانحدار. وكشفت نتائج الدراسة أن الأداء المالي يؤثر بشكل كبير على الأداء الرياضي. بالإضافة إلى ذلك، أظهرت النتائج أن النتائج المالية الجيدة للنادي تؤدي إلى تحسين نتائج الأداء الرياضي.

الكلمات المفتاحية: الإدارة المالية - أداء أندية كرة القدم - السعودية

### Introduction

(N.64,V.46,2021)

The football sector has regulations that differ with other sectorial economies (Alhakami & Khiry, 2010). In many performance evaluations cases, evaluators often cite profitability. In this regards, the most effective football clubs in the world have realized astounding incomes year in year out (Ferri et al., 2017). Thus, one would be duty-bound to argue that they are indeed performing well, negating their practical performance in the playing field. The strain between financial management and sporting performance demands in modern professional football is a key concern (Alhakami & Khiry, 2010).

Worldwide, football is considered the most popular sporting activity with regards to viewership and participation (Galariotis et al., 2018). For instance, in the 2018 world cup, FIFA recorded the highest viewership. The Saudi Professional League (SPL) was created in 1976 in Saudi Arabia (Al-Sarra et al., 2019). The major clubs include Al Hilal, Al Ittihad, Al Shabab, Al Nasr, Al Ettifaq and Al Ahli (Azeem, 2014). Since inception, the main objective of football clubs has been sporting success. The government has been supporting the Saudi football clubs financially throughout history (Al-Sarra et al., 2019). Nonetheless, the government has embarked on privatizing football clubs.

In the sporting sector, financial management is considered crucial (Dimitropoulos, 2010). Even though there are growths in the available financial resources, clubs are facing profound financial problems- increasing debt levels and incurring losses (Alhakami & Khiry, 2010; Galariotis et al., 2018; Sánchez et al., 2020). Recently, many Saudi Arabia football clubs have publicized financial problems resulting from situations of major losses gained in their activity (Alhakami & Khiry, 2010). A state of losses has negative repercussions towards sports competitiveness as it makes it impossible to improve the players' staff level, and hinders key investments in the club's infrastructures.

There exists a positive association between the strategic planning component variables and overall non-financial performance and financial performance indicators. In the sports arena, financial management evidently influence sporting performance (Alhakami & Khiry, 2010). As such, most sports managers seek to maximize financial performance as well as sports performance. Previous literature has suggested that the balance of the club football profit and loss account explains the financial position and performance of individual clubs. Worldwide, investigations into the link between financial performance and sports performance are comparatively few (Ferri et al., 2017; Dimitropoulos & Limperopoulos, 2014).

In Saudi Arabia, no study has investigated the relationship between financial performance and sports performance of major

football clubs. To address the gap, this study examines the effect of financial management and performance of football clubs in Saudi Arabia. This study therefore provided an opportunity to attempt to further understand the link between financial performance and sports performance. The study aimed at examining the performances of major football Clubs in the SPL in relation to financial planning with a view of understanding how financial planning affected performance of football clubs in Saudi Arabia.

### **Literature Review**

In the football sector, the coexistence of financial performance and sporting performance judgments has been broadly recognized in the existing literature (Buchholz & Lopatta, 2017; Dimitropoulos & Limperopoulos, 2014; Sánchez et al., 2020). In professional soccer, Plumley et al (2014) argue that financial management and sporting performance are closely linked. Accordingly, different financial variables influence sports performance (Ferri et al., 2017). Different scholars have investigated the relationship taking into account various performance indicators. To understand the connection between the two concepts, it is vital to understand factors affecting each construct.

#### **Financial performance**

From the existing financial performance literature, authors have the discretion of choosing key indicators (Rey & Santelli, 2017; Plumley et al., 2014). Researchers have assigned different weights to financial indicators. The commonly used indicators are profit increase, turnover increase, revenue obtained from sports attendance, percentage wage/salary turnover, percentage profit, debt ratio, operating income, staffing costs and Return on Capital Employed (Dimitropoulos, 2010; Plumley et al., 2014). Most of the variables used focused on total revenues, advertising and sponsorship, competition benefits and television rights.

In almost each study reviewed, the assessment of financial performance is often limited to operating margins or revenues, ignoring measures like profitability, indebtedness, solvency and liquidity, all impacting the short-term and long-term financial health and viability of businesses (Dimitropoulos, 2010). For example, the standing of each football club in the league at the end of the season was used to assess its sports performance (Rey & Santelli, 2017; Galariotis et al., 2018). The reason for this selection is that it enables researchers draw comparisons and judgments with existing literature.

Key financial metrics are usually constructed from the football clubs' yearly financial statements to help draw appropriate variables in relation to the corporate finance literature. The variables help

companies evaluate the financial strength of clubs (Dimitropoulos & Limperopoulos, 2014; Rey & Santelli, 2017). For most clubs, financial performance is analyzed with respect to their ability to attain a robust level of profitability, healthy indebtedness, combined liquidity and financial autonomy (Dimitropoulos, 2010). Galariotis et al (2016) has successfully used the characteristics mentioned above. These factors are significant for investors and shareholders, given that they are crucial club viability.

### **Sports performance**

In soccer matches, various key performance metrics define higher or lower performance. Most factors reveal performance for individual players as well as teams as whole (Galariotis et al., 2016; Plumley et al., 2014; Galariotis et al., 2018). Overall, the indicators are grouped into technical, tactical, physiological and psychological categories. These categories demonstrate performance in relation to speed, tackles, communication, passing, reaction time, agility, coordination, vision, awareness of space, clearance, body language, concertation, attitude, motivation, support play, shooting, crossing, heading and running with the ball among others.

Sports performance measurement largely relies on the research perspective and competition (Rey & Santelli, 2017). For instance, scholars have used variables including number of the goals scored, percentage of victories, score difference, goal average of a team based on rival teams and goals conceded to assess sports performance in relation to pitch attendance (Plumley et al., 2014). Others have used league points and league position as key variables as major measures (Ferri et al., 2017).

Sports performance has various indicators (Plumley et al., 2014). The commonly used metrics are win ratio (percentage of the games won in a season), playing success, capacity utilization (capacity of stadium attendance) and league points (number of total points gained during the league season). The overall results that take into account the team's position have been used to measure sports performance. To capture sports performance, Galariotis et al (2018) used the league standing and rankings as key measures.

Carlsson-Wall et al (2016) study highlighted that the league position is considered a practical and frequently used sporting performance metric. Similarly, Rey and Santelli (2017) used league rank as a key measure for sports performance. Dimitropoulos and Limperopoulos (2014) adopted the number of wins attained over a specific season as a variable for capturing the success of the soccer clubs. Nevertheless, the league models vary in number of teams, promotion/relegation rules and seasons.

### **Related studies**

Most of the existing studies have investigated the association between various financial performance variables and sport

performance in European, French and American football clubs. Galariotis et al (2018) research in the French football indicated that financial performance (measured using various ratios) negatively affect sport performance.

Prior literature has suggested a positive effect of financial performance (profitability) on club's league position. For instance, Ferri et al (2017) examined the association between the financial performance and the sports performance using the Italian football teams. The findings indicated positive impacts between the expenditures for football players' earnings and clubs' sports performance. However, the study found no significant impacts between player handover charges and sports performance. Ferri et al (2017), having used sporting performance as a dependent variable, found that profitability positively influenced sporting performance.

Using a panel-data regression, Buchholz and Lopatta (2017) studied two separate models to determine whether or not stakeholder ownership concentration promotes professionalism in football. They used a sample of football clubs from the leagues across Europe. From the analysis, one of their models revealed a positive effect of the club's league position on profitability, which was measured by return on assets. The other model indicated a positive effect of profitability on club's league position.

Recently, Sánchez et al (2020) focused on European football clubs and examined the association between financial performance (profitability) and sporting performance. The authors found that financial performance negatively influences club's sporting performance. Moreover, the study revealed that sport performance positively influences profitability.

For most football clubs, wage expenditure constitutes the largest expenditures. Other studies have investigated sports performance in relation to salaries and wages. Most of the investigations have supported a strong association between expenditures on wage and sporting performance (Ferri et al., 2017; Dimitropoulos & Limperopoulos, 2014). Ferri et al (2017) examined the relationships between spectator attendance, wage expenditures and distinct measures of sporting achievement of football clubs. Wage expenditures typically constitute the biggest expenditures for football clubs. Previous studies have shown that there is a strong correlation between wage expenditures and sporting success.

More evidence indicates that higher player wages result higher sporting success levels. Dimitropoulos and Limperopoulos (2014) investigated the association between the sporty and financial performance of the Greek football clubs over a period of 5 years.

They also examined how investment in player contracts impacts this association. In this empirical study including 20 Greek football clubs sourced from the top three divisions, the researchers found that higher investment in player contracts significantly contributes to sport success. However, high investment reduces profitability.

Plumley et al (2014) proposed an experimental model for measuring the performance of football clubs in England. The model integrates financial indicators and sporting indicators. The financial indicators are turnover increase, current ratio, profit increase, wages/turnover, gearing, debt, return on capital employed and percentage annual profits. The sporting indicators included in the model were league points, capacity utilization and win ratio.

In summary, Ferri et al (2017) Galariotis et al (2018) and Sánchez et al (2020) found a positive association between financial performance and sporting performance. The challenge is that most of these studies have investigated Italian, Greek, French, Brazil and European football. Although the discussion reveals a link between the financial situation sports aspirations for football clubs, there is a complicated strand of many possible dynamic interrelations which are applicable, and needs to be investigated (Galariotis et al., 2018).

It is therefore vital to consider the interactions of financial performance and sporting performance of leading football clubs. Based on the prior findings, the following hypotheses were tested:

H1a: Club profits significantly and positively influence sports performance

H1b: Club profits do not significantly and positively influence sports performance

H2a: Player salary significantly and positively influence sports performance

H2b: Player salary do not significantly and positively influence sports performance

H3a: A positive significant relation exists between investment in players and sports performance

H3b: A positive significant relation does not exist between investment in players and sports performance.

## **Methodology**

A cross-sectional survey was carried out. A random sample of management officials in the Saudi football clubs was used.

A management official participates in key decision making, especially financial matters. The sample comprises of members from 16 Saudi football clubs which had full data and consistently participated in the SPL competition over three seasons: 2016/2017, 2017/2018, 2018/2019.

The study was carried out by distributing a survey to 125 participants from various sports clubs. Before accessing the participants, the researcher sought for permission from the General Sport Authority and the Saudi Football Federation. The researcher explained the study objectives and aim before obtaining written consent. Anonymity was guaranteed as the survey did not include data regarding participants' identifying details, including name, phone number and addresses. To protect the privacy of all participants, the data were kept confidential.

The survey was written in English and translated to Arabic. It was then reviewed and validated by three experts in the subject. To customize the survey and ensure clarity, a pilot test was carried out. Piloting helped omit difficult to understand as well as inappropriate questions.

The questionnaire contained items which represented the concepts of financial performance and sports performance. The independent variable was financial performance and the dependent variable was sports performance.

SPSS software version 25 was used for analyzing the collected data. To investigate the relationship between the independent and the dependent variable, regression analysis was used. Six hypotheses were tested, with significant value set at  $p \leq 0.05$ . Descriptive statistics (frequencies, means, percentages and standard deviations) were used in describing categorical variables. Cronbach's alpha was used to evaluate internal consistency. The findings were summarized by use of tables.

## Results

### Demographic characteristics

In total, 100 respondents from various football clubs completed the survey. The response rate was 80%. The participants were aged between 30 and 60 years. Table 1 shows the demographic characteristics of all participants.

*Table 1: Demographics of the participants (n=100)*

	Frequency	Percentage
Gender		
Male	70	70

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Female	30	30
Education level		
Diploma	15	15
Bachelor degree	60	60
Masters	25	25
Years of working in the football industry		
1-4	20	20
5-10	70	70
More than 10 years	10	10

Table 1 indicates that most of the participants in the management positions are male, representing 70%. Most of the participants had a bachelor's degree and had worked in the football industry for between 5 and 10 years, representing 70% of the population.

*Table 2: Regression analysis*

Number	Hypothesis	Coefficient	Results
H1a	Club profits significantly and positively influence sports performance	0.038	p<0.05 supported
H1b	Club profits do not significantly and positively influence sports performance	1.11	p>0.05 not supported
H2a	Player salary significantly and positively influence sports performance	0.049	p<0.05 Supported
H2b	Player salary does not significantly and positively influence sports performance	1.08	p>0.05 not supported
H3a	A positive significant relation exists between investment in players and sports performance	0.04	p<0.05 supported
H3b	A positive significant relationship does not exist between investment in players and sports performance	0.90	p>0.05 not supported

Table 2 gives a summary of the regression analysis results. The overall R-square is 0.65 and the F-test is 71.94, implying a significant regression.

With reference to H1a, the coefficient is statistically significant and positive (0.038 with p<0.05). This result shows that highly profitable football clubs realize higher sports performance. Moreover, financial performance and sports performance have a positive effect. With reference to H1b, the coefficient is not statistically significant.

With reference to H2a, the coefficient is statistically significant and positive (0.049 with  $p < 0.05$ ). This result suggests that there is a significant positive relationship between football club size and sports performance. The two variables have a positive link. With reference to H2b, the coefficient is not statistically significant.

With reference to H3a, the coefficient of investment in players is statistically significant and positive (0.04 with  $p < 0.05$ ). This finding shows that there is a positive significant association between investment in football players and sports performance. Thus, investment in players and sports performance are positively related. With reference to H3b, the coefficient is not statistically significant.

#### Internal consistency

The internal consistency reliability of the 25 survey items, with a combination of two variables, was assessed by calculating Cronbach's  $\alpha$ . The average measure of Cronbach's  $\alpha$  value of all 25 items is 0.77. the Cronbach  $\alpha$  values for the two variables ranges between 0.75 and 0.91. The values of the Cronbach alpha are close to the acceptable level of 0.70, which suggests a satisfactory estimate of the questionnaire's reliability in this study.

*Table 3: Reliability of 20 questionnaire items*

Factors	Number of items	Cronbach's alpha	95% confidence interval
Financial performance	10	0.75	(0.70, 0.78)
Sports performance	10	0.91	0.86, 0.93

## Discussion

In this research, the major goal was to determine whether financial results significantly influence sports performance or not. To investigate the interplay between financial performance and sports performance in the Saudi football context, financial variables and sports performance variables were related. The analysis of the empirical results revealed several interesting findings. Overall, it is clear that football clubs with more financial management approaches realize better sportive outcomes.

Based on the results of this study, it is evident that football players' salaries significantly affect sports performance. There is a positive significant link between the level of salaries which is paid to the football players (0.049) and sports performance level. This finding implies that in Saudi Arabia, football clubs that pay high salaries to their players realize higher sports performance levels.

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Dimitropoulos and Limperopoulos (2014), having established a positive association between player salaries and sports performance, also supports this conclusion. According to these two authors, football clubs which spend great amount of money on player salaries dominate most competitions. Therefore, H2a is fully supported.

This study indicates that financial performance explains sporting performance. To be specific, the study established a significant association between profitability and sports performance. Similarly, Ferri et al (2017) demonstrated a positive association between profitability and sport results. In Greece, Dimitropoulos (2010) found that clubs' financial statements reveal serious financial problems that led to forced relegation of the historical clubs to the lower league categories. The explanation for the finding was that poor profits results in poor sports performance. Whereas the findings by Dimitropoulos (2010) and Ferri et al (2017) supported the study findings, Sánchez et al (2020) found that profitability negatively affects sports performance.

Evident in this study suggests that good financial results translate to better sporting results. In other words, financial efficiency helps football clubs attain sporting objectives of good standing league positions, capacity utilization and more wins. So, balancing financial stability with success in the pitch guarantees football club growth. In the Italian series, Rey and Santelli (2017) also found that financially stable clubs have best sporting performance. To corroborate this finding, Dimitropoulos and Limperopoulos (2014) found a positive link between financial performance and sports performance.

In this study, there was a significant relationship between financial performance and sports performance. This finding implies that better financial management translates to better sportive outcomes. Proper use of financial resources often results in balanced competitiveness of sportive clubs. The finding corroborates the Italian study by Rey and Santelli (2017), which concluded that football clubs with better financial health realize best sporting performance.

This study provides strong empirical evidence for the significance of financial management in promoting sporting success. In other words, good financial management translates to improved sportive outcomes. Evidently, clubs which prioritize appropriate financial indicators achieve their key sporting objectives. Alhakami and Khiry (2010) found that in Saudi Arabia, the financial management profession is inadequately equipped to handle the

unique elements of the football sector, implying that compliance and accountability levels are insufficient amongst football clubs.

When interpreting the results, this study has a number of limitations worth considering. It utilized a self-reporting survey. On account of the cross-sectional research design, a causal relationship between financial performance and sports performance was not established. In addition, the study was only limited to football sporting activities. Other sports, including athletics, basketball and volleyball were not considered.

### **Conclusion**

Taking into attention that football sports has a large impact in the local and the national economies, it is important to recognize how club managers work and how they apply financial resources to obtain maximum rewards. Understanding this circle helps establish the impact of financial results and performance on sports performance. This study empirically confirms that Saudi Arabia football clubs with better financial performance realize significant sports performance.

The study empirically measured the association between financial performance and sporting performance of Saudi professional football clubs. Financial performance and sporting performance indicators were related. This study, motivated by literature shortcomings, contributes to the existing literature by examining the effect of financial management on club performance in the Saudi Arabia context. The study brings together all literature offering new empirical results on the possible interactions of the major measures of football clubs' performance (including financial and sports performance), their implication and more significantly the direction of these associations.

The study empirically tested, in the context of the Saudi Arabia top football division (SPL), the validity of the existing financial practices for the football business and the good circle of football clubs' performance. The study, in doing so, incorporates the abandoned features of financial and sports performance using a comprehensive range of criteria providing robust and representative results.

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