

# Winners and Losers in Danish Football

*Commercialization and developments in European and Danish first-tier clubs*

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## Abstract

This paper deals with the commercialization of European and Danish football, focusing on the Danish male first-tier clubs. Based on the argument drawn from systems theory that sport serves as a mirror system in (late-) modern society, the Danish football clubs are measured against a simple matrix of main performance outputs in relation to the key factors of this function. The approach represents a sociological supplement to the ordinary performance benchmarks often used in sports economics, revealing FC Copenhagen and Brøndby IF as the main winners and AGF and Akademisk Boldklub (AB) as the main losers in Danish football in the 1999-2008 period.

Key words: European, Football, Danish Soccer, Mirror System, Systems Theory, Luhmann, Performance Output

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## Introduction

Since Rottenberg (1956), Neale (1964), Davenport (1969) and Sloane (1971; 1980) took the first steps in their classical papers on the specificity of sports business on the way to what has become a distinct, established discipline of sports economics, the question of the objective function of professional team sports clubs (PTSCs) has been widely discussed in the literature on professional team sports.

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While the debate has gone on for decades, it has yet to reach any conclusive end. For the most part, European scholars seem to continue to stress utility (winning) optimization as the main goal of the PTSCs, and scholars from the American tradition tend to weight the profit maximization goal (Cairns, Jennett, & Sloane, 1986, p. 10; Solberg & Haugen, 2010, p. 331; Downward, Dawson, & Dejonghe, 2009, p. 196; Szymanski & Zimbalist, 2006, p. 132; Kesenne, 2007, p. 4; Downward & Dawson, 2000, p. 27f; Lago, Simmons, & Szymanski, 2006, p. 5; Zimbalist, 2003, p. 504; Sandy, Sloane, & Rosentraub, 2004, p. 11; Barros, Ibrahímo, & Szymanski, 2002, p. 2ff).

In this paper, I begin with the European context (i.e. winning optimization focus), arguing that a historical development process, from the prime focus on winning to greater emphasis on financially viable budget constraints, can be observed in European – and therefore also Danish – football. While winning optimization has been – and remains – the main goal of the clubs, environmental disturbance and pressure is now forcing them to pursue new strategies of financial steering and accountability, thus resulting in a shift towards the profit pole of the win/profit continuum.

Seen through the lens of modern systems theory (Luhmann, 1995; Luhmann, 1990; Luhmann, 1995; Luhmann, 2002; Luhmann, 1997; Luhmann, 1986; Luhmann, 2000), this development and question regarding the objective function of professional football clubs can be distilled to a question of optimizing a balance between two co-existing main goals: economic performance and sporting success. This can be expressed in a simple performance matrix – developed below – distinguishing the winners and losers of Danish football.

## **Structure of study**

The paper is structured as follows: First, I conduct a brief review of the literature on the question of objective functions in PTSCs. Second, I introduce the argument of how sport functions as a mirror system of society, stressing how its recent dual coding has placed increased focus on the previously ignored financial aspects in the PTSCs. Third, I develop a simple performance model based on these reflections, thus measuring the Danish first-tier clubs. Finally, I sum up with some general remarks on the subject.

## The objective function of professional sports clubs

Do PTSCs strive for profit or winning maximization? Are football club owners mainly interested in profits or the glory associated with team championships? As mentioned above, scholars continue to debate this central question in sports economics.

### Moral argumentation on profits

While some measure of general consensus exists regarding the primary focus in the American versus the European contexts, some scholars do still argue that the European PTSCs are in fact essentially (long-term) profit maximizers. One of the most prominent examples is Fort, who stresses that clubs are ultimately rational actors, because this is what mainstream economics tells us they are (Fort, 2000, p. 444). Further along these lines, Gratton (2000) sees the growing number of stock-listed clubs following the establishment of the Premier League in 1992 as a sign of the development towards profit orientation: "*Flotation automatically involves greater emphasis on profits in the objectives of the clubs, and results show that profits of some clubs have improved tremendously (...)*" (Gratton, 2000, p. 25). To some degree, Barros et al. (Barros et al., 2002, p. 8) make the same argument.<sup>2</sup>

Szymanski (2001) also uses the profit maximization thesis as the starting point for an analysis of competitive balance, and scholars such as Westerbeek & Smith (2003, p. 89) and Roberts (2004, p. 103) give the impression that sports economics is basically about profits. Zimbalist provides a more balanced view, arguing that the objective functions of PTSCs differ but that owners are maximizing long-term returns aimed at some kind of profit seeking (2003, p. 510).

These arguments are to various degrees in line with mainstream economics, seeing the basic assumption of economic man as a – if not precise, then at least very firm – approximation of what happens in the ‘real world’ (Simon, 1959; Simon, 1955; Holton, 1992; Zimbalist, 2003, p. 504). This approach is normally closely connected to a kind of moral judgment, arguing that firms – in this case, football clubs – should act rationally, as doing so is necessary in order to survive (the natural selection hypothesis), secure efficiency and growth and broader societal wealth (see Holton, 1992, p. 58f; Walters, 2007, p. 29; Simon, 1959, p. 254; Kornai, Maskin, & Roland, 2003, p. 1105f).

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<sup>2</sup> An increasing number of Premier League Clubs are actually being delisted, which can be interpreted as a sign of the clubs now being run under objectives other than profits.

A variation on this view is often used in the (sports) press, as journalists criticize PTSC investors, directors and board members of not being profitable in their critique of the large deficits and massive debts in European football, thus questioning whether the management is stable and capable of securing their future existence.

### **Irrational stability**

Regardless of moral judgment, however, the expectations and theoretical assumptions of profit-seeking or maximization do not hold up to closer scrutiny of European and Scandinavian football. First and foremost, the argument regarding the necessity of being rational in order to stay in business can be questioned in relation to professional football. As Szymanski (2009, p. 5f) shows, the football sector is very stable when it comes to survival. Compared to the development in the overall economy, the problems of football capitalism are trivial: In 1923, the Football League consisted of 88 teams organized in four divisions. In the 2007/08 season, 85 of them still existed (97%); 75 remained in the top four divisions (85%); and 48 were in the same division as they were in 1923 (54%). This must be seen in relation to the top 100 companies of 1912. By 1995, only 20 remained in the top hundred, only 50 survived, seven liquidated, six nationalized and 37 had been acquired by other firms (Szymanski, 2009).

In the course of the past 15 years, only one league club in Danish football, Lyngby FC, has faced insolvency and relegation despite several clubs facing severe financial problems (Storm, 2009). In 2009, more than 5879 firms in various branches in Denmark had to close due to financial collapse, many due to the shocks following the credit crunch crisis. This was up 50 percent from 2008, which otherwise set the record for the number of bankruptcies in one year.

Despite the current financial problems in the first-tier clubs, all of the clubs survived in 2009 and only two second-tier clubs (FC Amager and Køge BK) folded. Compared to the overall financial climate, the survival rate in professional soccer seems extraordinarily high and can be explained with reference to the emotional attachments of fans, sponsors, creditors, local politicians and the like always stepping in to secure the funding of the financially troubled clubs (Grant, 2007, p. 77). In some sense, the finances of professional football are basically irrational, because survival can paradoxically be assured by increased spending relative to other clubs. In some strange sense, irrationality becomes rational in this sector (see also Storm, 2009; Morrow, 2003).

## English losses

Second, the profit maximization thesis simply does not hold in European football (Sandy et al., 2004, p. 26). Pointing to British football, Walters and Hamil (Walters, 2007; Walters & Hamil, 2008) find no evidence for the overall profit-maximization behavior of Premier League clubs. Stressing the stakeholder perspective, Walters and Hamil point out that even though English football has become extremely commercialized, football clubs are some kind of cultural institution with fans deeply engaged in the (sporting) welfare of their clubs (see also: Morrow, 2003). This makes it very difficult only to consider profit-related aspects in the daily operations. Buraimo, Simmons and Szymanski (Buraimo, Simmons, & Szymanski, 2006) also reflect on the effect of the cultural and emotional attachments of fans, the local community and other stakeholders by finding the main reason behind the indebted English football clubs being a ‘fear’ of creditors to close them down: *“English football have managed to sustain persistent losses that in other industries would have invited creditor reaction. The patience of banks, Inland Revenue, and other creditors is partly due to a reluctance to call in overdrafts and unpaid bills in recognition of community disapproval that would follow”* (2006, p. 41).<sup>3</sup>

In slightly different words, the authors of the annual report on English football, *The State of The Game* (Football Governance Research Centre, 2005) also point out the inappropriate assumption of the profit maximization hypothesis applied to football. Despite increasing revenues in English football, the clubs have increased losses and debt: *“In practice many clubs that floated didn’t follow a stock market driven profit maximization model – rather they prioritized sporting success over pre-tax profits”* (Football Governance Research Centre, 2005, p. 20). The recent work produced by Beech, Horsmann and Magraw (2008) on the numerous financial difficulties of English football clubs gives the same impression.

One of the main arguments of the primacy of the winning optimization in English PTSCs seems to be the fact that they do make profits – before transfers. According to Walters and Hamil, at operating level (before transfers), the Premier League was making cumulative operating profits of £1,312 million in the 15 seasons up to 2006/2007 (Walters & Hamil, 2008, p. 4). Adding net transfers to the calculation, however, the clubs report considerable losses. The massive hiring of

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<sup>3</sup> The willingness of stakeholders to bail out clubs is also found in other European countries (see Lago et al., 2006, p. 6ff).

players in order to remain competitive in the football sporting arms race – instead of paying dividends to shareholders – clearly seems to demonstrate the primacy of the winning optimization goal of the clubs.

### Italian and Spanish problems

The English football results are recognizable in other European football studies. Besides Szymanski and Zimbalist, who also point out the indebted Italian clubs (Szymanski & Zimbalist, 2006, p. 140), Morrow sees Italian football as a prime example of financial chaos and poor management (Morrow, 2006, p. 106). Baroncelli and Lago (2006) reveal an extreme increase in player salaries from 1996-2002 of more than 700 percent in Juventus, Milan, Inter, Roma, Lazio and Parma combined with persistent operating losses in all of the *Serie A* clubs starting from an aggregate -€144.3 mio. in 1996/97 increasing to -€982,2 mio. in 2001/02, thus clearly outlining a business sector on the brink of bankruptcy (Baroncelli & Lago, 2006, p. 20). The cultural and political significance of Italian football is reflected in numerous examples of the close connections between public authorities, politicians and the clubs leading to permanent overspending, massive borrowing or the establishing of ‘solutions’ in order to secure club survival. For example, Lazio reached agreement with the Italian tax authorities around 2005 to pay its €140 mio. tax liability over 23 years in order to avoid the immediate collapse of the club. Italian Prime Minister Silvio Berlusconi excused the deal, stating: *"We are talking about a team that has a huge number of supporters and there could have been public disorder and grave consequences"* (Morrow, 2006, p. 105).

With regard to Spain, Garcia and Rodriguez (Garcia & Rodriguez, 2003) do not find the development of the football clubs from sports clubs to stock companies as solving any of the Spanish clubs’ financial burdens – as one might expect. Despite major financial injections, the first in 1992 from public Spanish football pools to cancel their debts and a second, five years later, from new television deals, several Spanish clubs have been threatened with closure due to overspending (Garcia & Rodriguez, 2003, p. 253). Here, as in the case of the Italian clubs, the local government frequently steps in to bail out troubled clubs. For example: *(...) there is no chance that Real Madrid or Barcelona would ever be allowed to go bankrupt, whatever the financial problems of these big-spending clubs* (Lago et al., 2006, p. 8).

## Scandinavia in the red

In the Scandinavian context, the profit maximization thesis has yet to be verified by any studies. Gammelsaeter and Ohr point out numerous financial problems in the Norwegian Tippeligaen (first tier) over the years in their in-depth analysis of the development in Norwegian football (Gammelsaeter & Ohr, 2003, pp. 11,34).

In 1994, 10 of the 14 first-tier clubs operated with negative equity, a situation which was ameliorated during the course of the decade due to the new licensing regime which required that clubs proved a positive equity situation at the beginning of the season. While there are no examples of clubs being unable to meet this requirement before the season, many clubs have struggled with low cash flow towards the end of the season, and rescue operations to re-establish positive equity before the next season have been commonplace in Norwegian football (Gammelsaeter, Storm, & Södermann, 2010). Solberg and Haugen also confirm the dire financial situation in Norwegian football. In 2007, the total operating losses of the Tippeliga clubs amounted to NOK 80 mio. (Solberg & Haugen, 2010, p. 330).

In 1999, nine years after the Norwegians, the Swedish FA decided to introduce the economic licensing of the Swedish professional clubs. Worries about the financial management of the clubs had long persisted, not least against the background of escalating salaries in the 1990s. Subsequently, equity requirements were put in place as of the 2000-season (Carlsson, 2009). While not being spared from economic worries, Swedish football is possibly characterized more by a few clubs running into serious financial troubles than any widespread crises in the population of clubs itself. In 2009, for example, the three Stockholm clubs – AIK, Djurgården and Hammarby – were all experiencing economic hardship. A few years earlier, in 2003, Helsingborg IF was saved from liquidation by the city council by a gift disguised as a loan (Carlsson, 2009). This did not happen to Örebro SK, though. The club ended up being relegated to the second division for failing to meet the equity requirements before the 2005 season (Gammelsaeter et al., 2010).

The amateur rules were lifted in 1978 in Denmark, triggering the gradual commercialization process that peaked in 2008, when the credit crunch crisis brought the growing revenues and (modest) profits shown by most of the clubs in the years leading up to the global recession to a sudden halt. The initial steps, however, were characterized by a lengthy period of inadequate regulation and

more or less financial hardship during the 1980s and 1990s (Storm & Magnussen, 2005). As seen in the figure below, the clubs generally managed to break even or show modest profits as of 2000, with FC Copenhagen and Brøndby IF as the clubs with the most proficient financial management being the exception to the general rule of financial deficits in the rest of the clubs (Storm & Brandt, 2008; Storm, 2009; Storm, 2007).

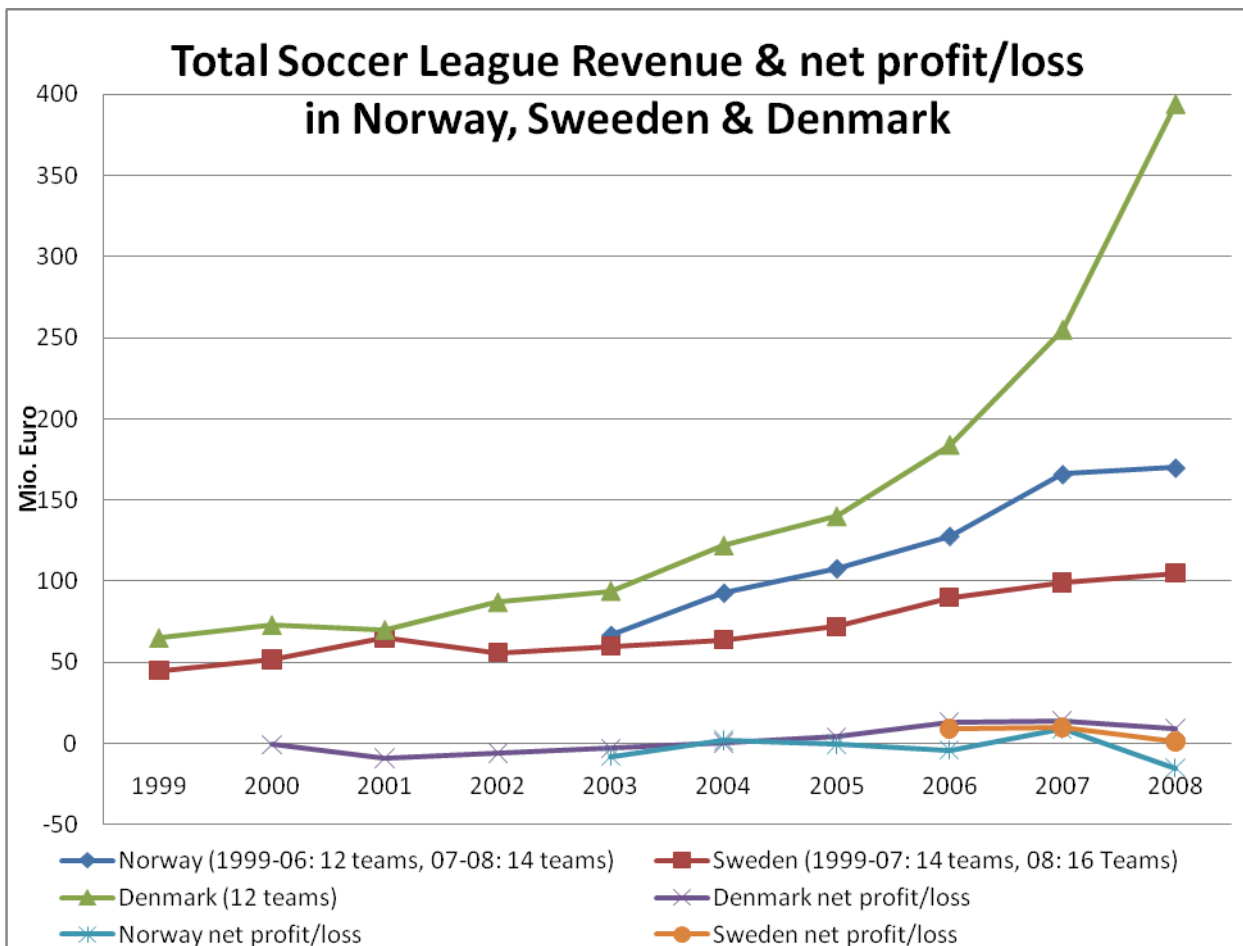


Figure 1: Aggregate revenue and profit/loss including transfers, Norway, Sweden and Denmark<sup>4</sup>

As the figures show, the developments in Norway, Sweden and Denmark resemble the overall picture of European Football: While revenues have been rising, the cost of remaining competitive has also increased. As of 2007, the operating result began to fall; and is expected to go even lower in 2009 due to the global recession. In 2009, all of the Danish first-tier clubs, with the exception of Brøndby IF and Odense (OB), have major operating losses due to falling sponsor revenues and difficulties capitalizing from side activities such as the property investments common to many Danish first-tier clubs (Storm & Brandt, 2008). Even FC Copenhagen, recognized for its prime

<sup>4</sup> Information is obtained from various sources (for further details, please refer to (Gammelsaeter et al., 2010)).

management and economic success in Scandinavian football (Storm, 2009), has entered a phase of unforeseen financial problems, and critical observers have even predicted the death of the club. This appears to be an exaggeration thus far, as investors have stepped in to secure future operations.

## **Explanatory factors of poor financial results**

In addition to global recessions affecting the general conditions for running a profitable business, the logics behind the financial deficits and persistent losses faced by clubs in the European context are manifold. However, they can be addressed with reference to two distinct main factors: 1) The institutional mechanism of the football market and 2) the specific logic of sport focused on winning.

Here, I provide a brief introduction to the institutional mechanisms and then turn in greater depth to the logics of sport.

## **The institutional mechanism of the football business**

According to Dietl, Franck and Lang, the European football clubs are facing severe financial problems due to the ruining conditions of competition in the European league structures enforced by: A) a more unequal distribution of the league revenue, B) an additional exogenous prize (e.g. participation in international competition) awarded to the winner of the domestic championship, C) a system of promotion and relegation, and D) increased inequality between the first and second divisions in the domestic league (Dietl, Franck, & Lang, 2008, p. 366).

The problem of promotion and relegation (Factor C) is well known in the literature, as the threat of relegation places ever-increasing pressure on the clubs to invest in player talent in order to avoid the drop, as relegated teams are excluded from the market and thereby placed in a dire financial situation. Conversely, promotion increases revenues significantly (Solberg & Haugen, 2010, p. 337; Szymanski & Zimbalist, 2006, p. 4; Gammelsaeter & Ohr, 2003, p. 4).

Thus, an increasingly unequal distribution of revenues (Factor A) and the increasing polarization between the first and second tiers (Factor D) amplifies the incentive to gamble for success.

Knowing that these mechanisms are actually at work in European football leagues (Football Governance Research Centre, 2005, p. 21; Storm, 2009, p. 465; Szymanski & Smith, 1997, p. 148; Szymanski & Zimbalist, 2006, p. 193; Barros et al., 2002, p. 7; Morrow, 2003, p. 15ff), the

overspending phenomenon is quite explainable. This is only further enforced with an exogenous prize (Factor B), as the top level clubs compete for participation in the Champions League, where the income can be tremendous.

Further along these lines, there is always an incentive to invest (Storm, 2009). This becomes even clearer when considering the basic logic of sport: the code of winning.

### **The winner takes it all**

Sport is all about winning. This appears evident and, in this sense, the football clubs strive towards prestige and championships, seeing financial income as a means instead of a goal unto itself – as one would expect in keeping with a profit maximization approach. Theoretically, the winning optimization approach can be conceptualized with reference to Luhmann's systems theory applied to sports.

### **Luhmann's social systems<sup>5</sup>**

Luhmann's systems theory is very complex. In short, however, one can understand a social system as an organization and the reduction of complexity distinguished by a semantic border between its inside (the system) and the environment (the outside) (Luhmann, 1995; Luhmann, 1990; Luhmann, 2002). As opposed to the environment, a (communication) system represents a kind of meaningful order, as it constantly relies on the dynamic created by the system/environment distinction in a process in which unstable elements of meaningful communication are repeatedly reproduced (Arnoldi, 2001). If a vital environment disappears, so does the system.

In order to distinguish, the system uses a binary coding to select the communication relevant for its autopoiesis. With regard to sports, in the immortal – though possibly unintentional – words of Swedish pop-group ABBA: "The winner takes it all". This is what the codification of the sports system is all about. Tangen (2004; 2000) has approached this through the question: *How is sport possible?* by stating that the symbolically differentiated medium of sport is the victory and that modern sport is guided by a win/lose binary code (Tangen, 1997; Tangen, 2004).

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<sup>5</sup> Please refer to Storm and Wagner (Storm & Wagner, 2010), Tangen (Tangen, 2000; Tangen, 2010; Tangen, 1997) and Thyssen (Thyssen, 2000) for an introduction to the systems theory of sport.

This means that any aspects that do not refer to the code: ‘winning’/’losing’<sup>6</sup> are not part of the system. It is not sport. The result is an inherently unstable system, because winning can only come about through improvement, since no record is unbeatable (and no championship lasts forever). This is why the athlete, or in this case the club, is under constant and unrelenting pressure to seek new advantages; a process Heinilä (1982) describes as the totalization process in sport.

As the PTSCs, seen as organizational systems, are bound to the sports system (Esmark, 2005, p. 241)<sup>7</sup> and use its media and code, the clubs are forced to reinvest their income in future developments to achieve the goal of winning, which in this sense is the basic prerequisite for the sports system as such (Tangen, 2004, p. 170). As shown in the above, this is exactly what has happened in Danish and European professional football, thus giving a theoretical explanation for the persistent deficits.

## Environmental adaptation

This does not mean, however, that at least some professional team sports clubs do not follow what can be interpreted as a profit-oriented approach. According to UEFA, the proportion of football owners looking primarily for financial returns has increased over time (UEFA, 2005, p. 19). Kesenne (2002, p. 96) argues that the gap between the profit-oriented American franchises and the European win-maximizing PTSCs is narrowing. In Europe, “(...) *not only winning but also making profits is becoming part of the game*”<sup>8</sup>. Furthermore, it seems obvious that some European Leagues are financially better off than others. According to Deloitte’s annual review of football finance, the German Bundesliga is now the most profitable in Europe (Deloitte, 2008, p. 4), showing aggregate operating profits of €250 mio. combined with a significant reduction in liabilities (financial standings 2007).<sup>9</sup> Furthermore, according to Szymanski & Zimbalist (Szymanski & Zimbalist, 2006), the French league clubs have shown financial improvements and increased profitability for a number of years now.

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<sup>6</sup> Or: “Victory/Defeat”.

<sup>7</sup> According to Esmark (2005, p. 241), organizational systems are bound to social systems.

<sup>8</sup> Kesenne simultaneously argues that in the American league’s: “(...) economists like Quirk and El-Hodiri and Noll admit that besides making profits winning the championship is also important, even if it reduces profits” (Kesenne, 2002, p. 97).

<sup>9</sup> The 36 Bundesliga clubs have applied prudent budgeting to reduce their liabilities during the 2006/2007 season and managed, for the first time, to drop below the €600 million mark (Deutsche Fußball Liga, 2008, p. 4).

Do these findings contradict the winning-optimization thesis of European PTSCs presented above? In short: no. While further research is necessary regarding the problems and solutions of the German and French leagues, these two leagues operate with strong governing bodies that formulate regulations and impose sanctions on the clubs that violate the rules (Gouguet & Primault, 2006, p. 49; Deutsche Fußball Liga, 2008; Frick & Prinz, 2006).

Instead of seeing good financial standings as a sign of profit-maximization, these instances of national league regulation can be interpreted as responses to an environmental disturbance by the PTSCs. Still reproducing the system, the winning-optimization approach prevails even as rules, financial regulations and standards from other systems are adopted. This entails what can be referred to as ‘a market adaptation’ that is ‘forced’ upon the PTSCs, signaling that this is not a profit-maximization orientation in the classical economic sense of the term but rather a step towards a more market-oriented approach.

On a more general level, these developments of market adaptation can – in line with Kesenne’s argumentation (Kesenne, 2002) briefly presented above – be seen as part of a broader development in Europe, where economic aspects of professional football are under consideration (see Barani, 2007, p. 112).

This happens on the level of the European Union, as recently expressed in the Commission White paper on sport (Commission of the European Communities, 2007), the Parliament report on the future of professional football (Belet, 2006), the rulings by the European Court of Justice (ECJ),<sup>10</sup> and now – as a result – in the new UEFA Financial Fair Play program. Basically, however, the new awareness of financial aspects in professional sports – also affecting the activities and power of UEFA (Garcia, 2007, p. 12) – is enhanced by the increasing focus on experience economy and sport as means of economic growth. This trend is reflected in cultural politics all over Europe, as European nation states begin to place growing value on sport (Horne, 2006, p. 115; Storm, 2009).

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<sup>10</sup> With regard to the question of the ECJ rulings, the space here does not allow us to delve deeper into its consequences. Briefly outlined, however, as professional football has become a growing multimillion dollar industry, the European legal system (and the administrative apparatus (i.e. The Commission)) primarily recognizes it as an economic activity (even though the Commission White Paper does recognize ‘the specificities of sport’). This means that it cannot exempt sport from – for example – the EU-competition rules (under competition law, however, some exceptions can be made) or as in the case of the Bosman ruling, the rules governing the free movement of labour within the European communities. In the words of DiMaggio and Powell (Powell & DiMaggio, 1991, p. 67), this enforces a coercive, isomorphistic process in the sports system in order to adapt its internal regulatory framework to external pressures, thus obtaining legitimacy. Please refer to Barani (2007) and Garcia (2007) for further reflections and details.

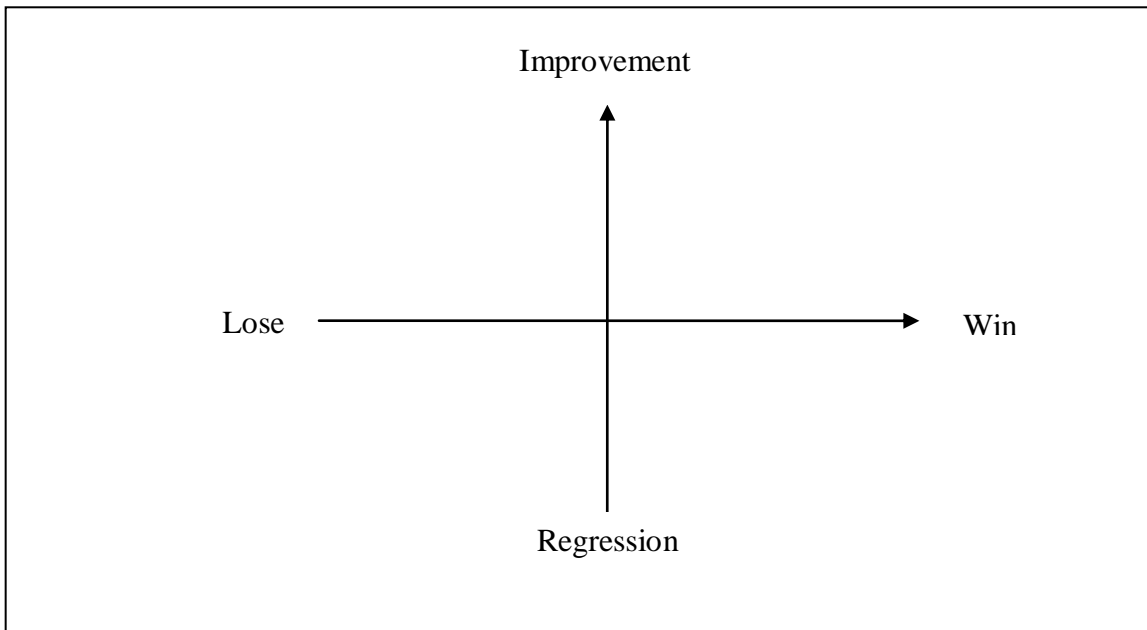
Theoretically, this can be interpreted as another developmental step in that which Tangen (Tangen, 1997; Tangen, 2010) refers to as ‘the mirror function’ of the sports system to which we now turn.

### **The mirror function of sport**

According to Tangen (Tangen, 1997; Tangen, 2010), the development of modern societies, as characterized by increased complexity, establishes a need for a new societal logic of direction. One of the downsides of the growing number of social systems in modern society – and their internal division of labor – was a multi-centered society incapable of offering one single perspective of direction to society as such (Kneer & Nassehi, 1997, p. 147). In pre-modern times, religion more or less represented an overall answer to this problem (Kneer & Nassehi, 1997, p. 133). According to Tangen, however, the result of the increased differentiation of sub-systems in modern society was a surplus of possibilities of selections (Tangen, 1997, p. 392), leaving society vulnerable and chaotic. Here, the sports system presented itself as solution:

*"Society had, and has a problem of getting the subsystems to observe the society's lead difference of progress/regress. There was a need for a subsystem that could show or make this difference observable for the other subsystems. There was also a need for testing out the advantages and consequences of actual and relevant operations of progress without significant risks for the society at large. In other words, there was a need of a subsystem that could mirror the lead difference and test the necessary operations with the least social risk" (Tangen, 2010).*

Here, the sports system became a functional solution of common observation. A central precondition for the sports system to function as representation of an overall societal lead difference was, according to Tangen, a new double coding of the system established throughout the 18<sup>th</sup> and 19<sup>th</sup> centuries (Tangen, 1997, p. 275). Thus, besides the win/lose code, the system was supplemented with the code improvement/regression standing perpendicular to the primary code, as illustrated in the figure below.



**Figure 2: the double codification of the sports system**

The importance of this double coding for societal communication can be reflected like this: Winning doesn't always mean improvement. The result of a given competition could simply be the effect of a weak opponent. Yet another reason for a victory could be luck, which points out a potential risk for losing during the next round of competition; thus, in both examples, establishing a necessity for improving future performances. Should one experience loss instead of victory, the communication is also directed towards improvement.

In other words, no matter where an activity is placed in the matrix, it is always directed towards a (never-ending and unobtainable) path of progress.

### **Commercial developments and sport as a source of growth**

Here we arrive at a critical point of analysis, as certain parts of the sports system slowly begin to take center stage in the societal mirror struggle for progress. In the course of the last decade, one can observe growing interest among western nations in sport as a potential source of economic growth. This first happened during the development of the new experience economy mega-trend, described in a growing body of literature (Bille & Lorenzen, 2008; Storm & Brandt, 2008; see for example Bærenholdt & Sundbo, 2007; Pine & Gilmore, 1999; Florida, 2002), and secondly by the fact that sport as a leisure and consumer activity is now considered an industry of consumption (see for example Horne, 2006; Westerbeek & Smith, 2003; Roberts, 2004). As shown below, these

developments have affected the PTSCs as well as placing certain expectations upon the sports system.

### European trends

On the European community level, the Commission White Paper on Sport (Commission of the European Communities, 2007) stresses the macro-economic impact of the sports sector. Under the heading "Economic Dimensions of Sport", it states:

*"Sport is a dynamic and fast-growing sector with an underestimated macro-economic impact, and can contribute to the Lisbon objectives of growth and job creation. It can serve as a tool for local and regional development, urban regeneration or rural development. Sport has synergies with tourism and can stimulate the upgrading of infrastructure and the emergence of new partnerships for financing sport and leisure facilities".* (Commission of the European Communities, 2007, p. 10)

Taking a broad approach, the White Paper signals a dedication to promoting and developing the economic aspects of sport in the European community as a source of wealth and growth. It also states the importance of highlighting the positive economic aspects of the sector. The European Community work in this field has been going on for a while now, thus expressing a rationalization and highlighting of sport as part of the new and growing experience economy. The connection and synergies between sport and business is also reflected in a final report from a conference on sport held by the Commission in 2006:

*"The new sport model has implemented forms of vertical integration in the industry and has created synergisms as a result of the interaction between business and sport. Economic developments such as: broadcasting rights, merchandising, sponsoring, organisation of mega sporting events, potential economic multiplications of organising a sport event, the mobile leisure society, sport tourism, sport and the impact on health, the public-private corporation in building of sporting infrastructure, the betting industry, raising market share of sporting goods, shoes and clothing, to mention but a few, have resulted in the development of a sport sector with large economic effects far beyond the scope of sport in the narrow sense".* (Dejonghe, 2006, p. 1)

Later, in the White Paper, the new focus has resulted in concrete initiatives formulated in the Pierre de Coubertin action plan. According to the Commission, it will start facilitating studies of the measurement of the economics of the sports sector, thus enabling the analysis of potentials and effects subsequently revealing opportunities for evaluation (Rogulski & Miettinen, 2009, p. 248). Furthermore, the Commission wants to launch studies of the direct contribution of sports to the

European economy, at the same time investigating the ‘best practices’ in organizing major sports events (36). Finally, the White Paper on Sport stresses the capacity of licensing systems to promote good governance in sport and aims at helping initiatives in this field of regulation (Rogulski & Miettinen, 2009, p. 250).

Even though the White Paper on Sport touches upon a range of areas in sport – for example questions of social integration, national identity and physical activity among adults and youth – one can clearly argue that the economic dimension of sport is recognized in line with the experience economy megatrend, briefly touch upon above.

### **Danish focus**

In Denmark, the new orientation towards sports has been institutionalized in the governmental working programme from 2003 (Regeringen, 2003): *Denmark in the culture and experience economy: five steps ahead*. Here, the economic impact of sport is addressed as means of creating jobs and growth: “(...) *the sports sector has to a very high degree developed into a sector of economic significance with high revenues, job creation and growth*” (p. 20). Under the heading “Governmental strategy”, the paper concludes: “*The government wishes to support the business sports sector and its possibilities for enhancing growth*” (p. 22).

In line with these strategies, the Minister of Culture (also responsible for sport in Denmark), the Minister for Science, Technology and Innovation, and the Minister for Economic and Business Affairs has initiated several studies and action plans in order to use and develop sports, thus reaching for a broader economic growth. In 2003, the Minister for Culture appointed Flemming Østergaard – at that time an established and charismatic Director and Chairman of the Board of FC Copenhagen, one of the leading football clubs in Denmark – to lead a working group entrusted with writing a report on the good governance of professional sport companies. The report (Østergaard, Buch, Jørgensen, Krarup, & Riis, 2004) was published in 2004 and provided recommendations on how to run and understand sports businesses. Furthermore, the Ministry of Science, Technology and Innovation published a report in 2005 entitled: *Denmark must win on creativity* in which the need for educational initiatives was analyzed with sport as one of the subjects. The Danish government has also focused on sport in several initiatives such as “The Danish Year of Sports” in 2009, where Denmark hosted the IOC session and congress and “The action plan for hosting big international sport events” allocating more than DKK 250 million to such purposes.

Finally, the Danish Minister for Culture started a domestic debate in 2005 as to whether Denmark should make a bid for the 2020 Olympics by asking a Danish consultancy firm to conduct a cost-benefit analysis of the consequences of hosting the event on Danish ground. Even though other parts of the Danish government never really liked the idea – and closed it down quickly – the initiative illustrates the growing attention towards commercial sport and mega sporting events as a means of economic growth.

### **UEFA Financial Fair Play**

In relation to European football, UEFA has reacted by initiating the Financial Fair Play program in order to improve the operational grounding of professional football. Obviously, it is unclear that the new program in itself has been launched due to the growing focus on the financial opportunities of sport in the experience economy. However, it can be argued that the growing significance of football, as expressed in several reports from the European institutions and politicians, constitutes ‘environmental pressure’ forcing the UEFA to do something on this matter.

One of the most recent reports is the European Parliament report on the future of professional football (Belet, 2006). Stressing the importance of financial stability in European football, the report argues that the challenges of European football cannot be managed by its governing bodies alone (Belet, 2006, p. 8). According to Belet, EU institutions such as the Parliament, European Council, European Commission and the EU court have their own roles to play in solving this matter.

These expectations regarding financial stability are now part of the UEFA communication, as several UEFA documents point out the importance of ensuring the financial health of European football:

*"The expectations placed on a football club by supporters, members, players, coaches, sponsors, the media, the general public and civil authorities/governments are no longer of a purely sporting nature. The activities of the clubs involved in top class football are moving increasingly in the direction of service enterprises. UEFA is concerned with supporting the member associations in achieving higher standards for all people connected with the football family. By this we mean improving the overall fabric of the game. We need to maintain and improve the overall quality of the coaching courses to improve the standards of play across Europe, and therefore ensure healthy competition between leagues and clubs. In turn this should provide more entertaining and technically proficient matches, leading to more fan enjoyment and increased*

*attendances. Higher attendances attract more sponsors and TV revenue and enable more income to be generated by a club. This will allow a club to continue to invest in its stadium facilities, for both players and spectators alike, its youth policy scheme and further coaching methods and staff. A positive “virtual circle” is achieved. By investing in specific and measurable standards in the game at club level all of football wins” (UEFA, 2005; UEFA, 2002).*

This statement specifically points out the external pressures that are brought to bear upon the PTSCs as they develop their activities in more business-oriented ways. Furthermore, this statement acknowledges the environmental influences to which the regulative football bodies respond, such as the introduction of the UEFA club licensing system in 2004 – a forerunner to the new Financial Fair Play initiatives.

Former UEFA Chief Executive Lars-Christer Olsson expressed this in a press release on the UEFA homepage: *“The clubs, leagues and member associations realize this system can only strengthen football's credibility as an industry (...) Nobody in the game wins when, for example, financial mismanagement rather than sporting affairs dominates the headlines. By requiring clubs to meet certain standards (...) the scheme will improve the game's infrastructure and help safeguard the game's future.”<sup>11</sup>*

In 2009, UEFA President Michel Platini stated the following in the foreword to The European Club Footballing Landscape report (UEFA, 2009): *“(...) In terms of cost control and financial stability several clubs, competing in the top divisions of many national associations, continue to report poor financial performances with negative impact on profitability. Reliance on debt to finance operating activities has reached in some cases worrying levels raising concerns over the medium and long term wealth of several clubs (...) In this context it is very important that the UEFA club licensing system is reinforced and implemented across Europe raising the level of professionalism in club management and ensuring financial stability and fair play in the long term”.*

In this light, UEFA now understands professional football ‘as an industry’ responsible for sweeping out its own contaminated dust. This is a kind of market adaptation pushing the football clubs towards a more profit-oriented approach not only focusing on the sporting aspects provided by the codes of the sports system but also – to growing degrees – financial aspects.

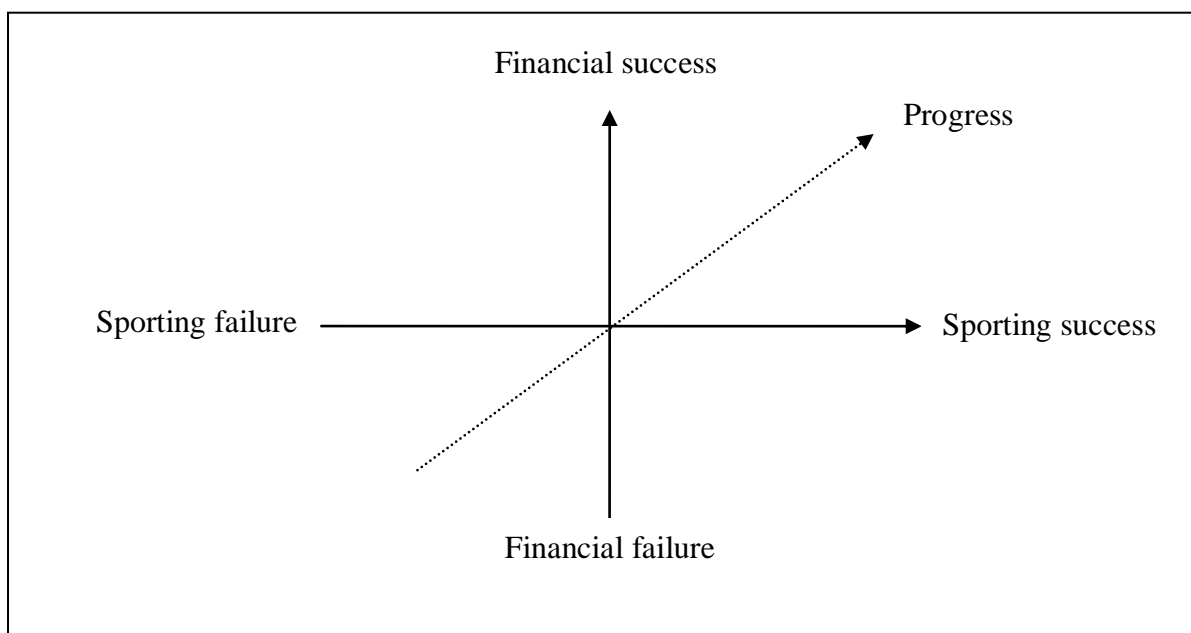
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<sup>11</sup> <http://www.uefa.com/uefa/keytopics/kind=128/newsid=157594.html>.

## Towards a (mirror-)model of progress in Danish football

The examination above outlines a developmental process towards seeing sports as something more than just play. Sport has gradually become ‘serious’. Not only through its mirror function in world society as such but also, as the financial aspects are stressed, as ‘an industry’ capable of developing the European communities and the respective domestic economies.

Just as the sports system has been double-coded, one can thus argue that the structural coupling between the economic and sports systems has taken a further step with a new double binary coding which, in this sense, more clearly than previously expresses the main lead difference in society: progress (Storm, 2009). This is expressed graphically in the figure below, showing the lead difference of the sports business, here applied to professional football.



**Figure 3: The double codification of the sports business**

As seen in the figure, the sporting and financial aspects are both stressed. Furthermore, a third line is drawn in order to illustrate the main lead difference in modern society. Further along these lines, the double codification of the sports business meets as a sign of progress. In this perspective, professional team sports represent this very symbol. Furthermore, if this is a correct interpretation, it helps explain why professional sport, in this case football, attracts so much attention from various European and government actors.

Taking this model into closer consideration, it also becomes clear that market adaptation installs a new dual objective function in the PTSCs. More concretely: as professional football develops into an industry in the new experience economy, the environment places new demands upon the clubs. While winning remains the primary PTSC goal in this perspective, winning is no longer everything – because financial aspects have become part of the communication.

With the implementation of licensing systems in various domestic leagues and the UEFA Financial Fair Play program, this is institutionalized as a dual objective of making a profit while remaining competitive. The most successful teams are clubs that are simultaneously capable of balancing these two goals.

### **Winners and losers in Danish football**

Based on these reflections, we now develop a (mirror) model of progress in Danish football based on two main performance indicators for Danish football clubs derived from the model above, one sporting and the other financial, in order to determine the winners and loser of this new performance principle.

### **Performance measures**

The sporting factor is rather obvious, as it represents the sporting merits of the clubs over a given period of time. The financial factor, however, can be discussed as measures of economic performance are not necessary absolute. In this case, we choose post-tax profits as a measure, as this represents the amount that potentially could be paid out to shareholders in the Danish context. Following the market adaptation hypothesis, such profits would entail a focus in the clubs on economic performance, thus representing how successful the club is in financial terms.<sup>12</sup>

The period examined is 1997-2008. This period is chosen, as it can be said to be the period in which the new experience economy trends and the growing focus on good governance in professional football and the Financial Fair Play program have been initiated (and thus, the new role of process towards market adaptation has taken place). Furthermore, it represents a period of economic growth in Danish Football and is a period of time in which the data on all clubs playing in the first tier in

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<sup>12</sup> Obviously, this is a simplification. More sophisticated measures of economic performance could be developed. The aim of this paper, however, is merely to illustrate the idea of the mirror model and its theoretical foundations, leaving the development of better measures to later studies.

this period can be obtained from the Danish tax authorities. Nevertheless, we only choose clubs which have been playing in the league for five years or longer in the period as part of the analysis.<sup>13</sup>

The clubs are plotted in relation to the sporting and financial performance measures in the figure below, with the most successful in the first quadrant and the clubs with the lowest sporting and financial success in the third quadrant. The plot reveals FC Copenhagen and Brøndby IF as the main winners in this period and AGF and AB as the losers in Danish football according to this mirror model of progress.

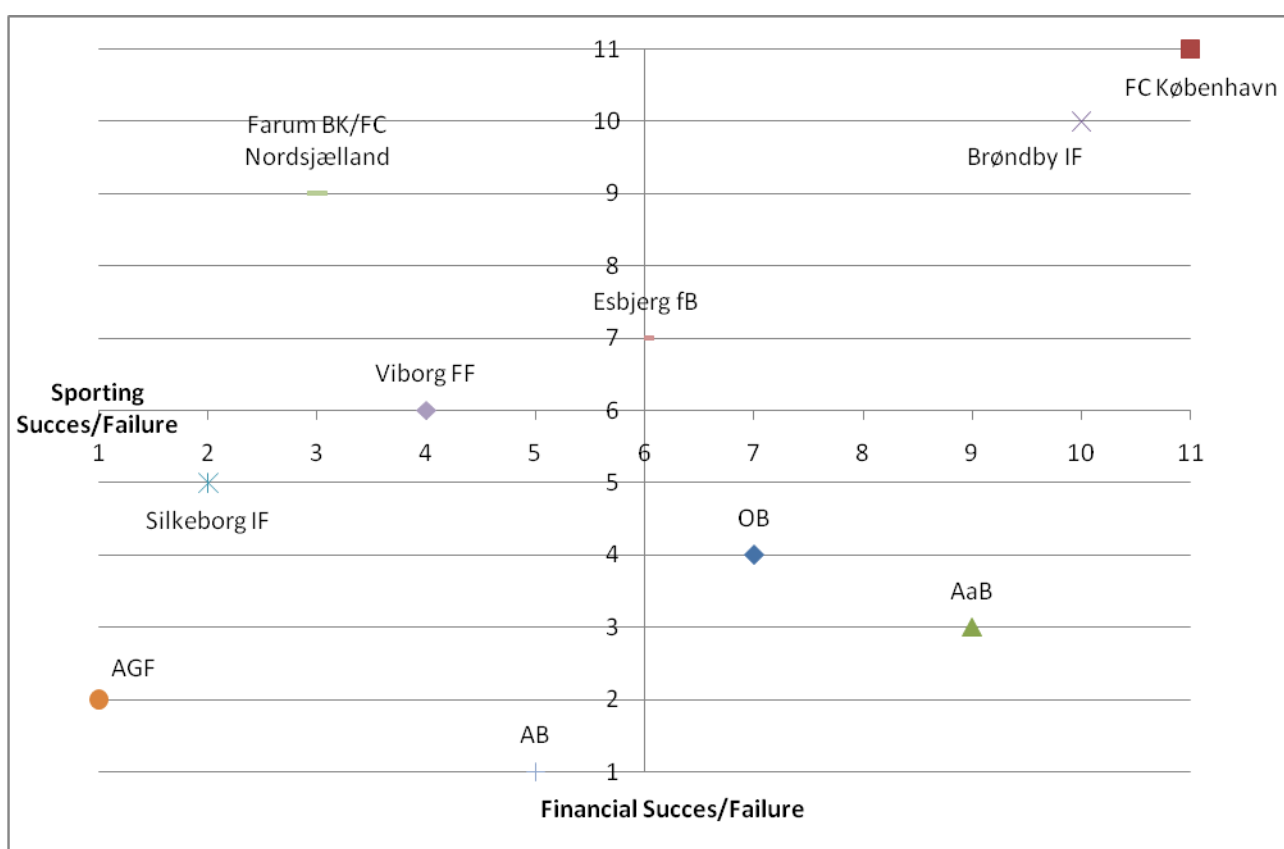


Figure 4: Winners and losers in Danish Football. First-tier clubs, 1999-2008

The picture presented here is dynamic, of course, and as the effect of the credit crunch crisis is not covered, the figure will very likely change when updated data becomes available.<sup>14</sup> For example, FC Copenhagen has been extremely stable and successful measured in terms of financial

<sup>13</sup> Methodically, the clubs have been measured in this manner: Sporting success: average ranking in the period covered; financial success: average profit/loss in the period covered. The average numbers have been given points: 11 points for best average ranking, 10 for second best, 9 for third best and so on. 11 Teams have been picked in order to provide a zero-point (6).

<sup>14</sup> At the time of writing, the data for 2009 is not yet available.

performance in the examined period but has recently announced a deficit of approximately DKK 250 million in 2009, largely due to failed property investments. Adding this to the calculation, FC Copenhagen's position in the mirror model will – depending on the results from the rest of the first-tier clubs – change significantly.

Brøndby IF has also faced declining financial and sporting performances in 2009, which have an impact on the club's relative position, while Odense Boldklub (OB) has improved both on the field and in the financial accounts. Future analysis will explore new and interesting changes in Danish football affecting the display above.

## **Concluding remarks**

The aim of this paper has been to distinguish the winners and losers in Danish football. In order to do so, numerous theoretical considerations have been undertaken. Drawing on modern systems theory, the paper has distilled the classical question of the objective function of professional football clubs to a question of balancing two distinct performance indicators representing a further step in the mirror function of the sports system in society. Identifying a process of market adaptation in professional football in Europe and Denmark, the professional football clubs are found to be a symbol of this development.

In order to identify the most successful football clubs in the light of the lead difference of society found in the merging of sporting and financial goals, an operational mirror model of progress is developed.

Subsequently, first-tier Danish clubs have been plotted in relation to their respective sporting and financial performance in the period 1999-2008, revealing FC Copenhagen and Brøndby IF as the main winners of this period. AGF and AB are found to be the losers according to this paradigm.

The mirror model is a rather simple measure, but this is also one of the virtues of the model. In its simplicity, it represents a supplement to the performance benchmarks conventionally used in sports economics, such as regression analysis. Nevertheless, future studies can develop the model in relation to questions as to how to measure the financial performance aspect. Additional factors could also be added in order to widen the scope of its complexity. Here, only two main objectives

are covered, and the football clubs are obviously concerned with things other than financial and sporting success. This paper also offers a theoretical perspective on the dual objective of the football clubs, leaving it to future studies to better this approach.

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