Chapter 9

An Overview of Foreign Exchange Management in Football Clubs

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Abstract

Football, considered the most popular sport in today's world, has reached dimensions that go beyond being just a physical activity. With club budgets in the football industry reaching billions of dollars, international organizations contribute to the emergence of the need for sporting success in football. Football clubs make player transfers in order to achieve sporting success by building quality squads. Considering the transfer fees, especially in recent times, it is understood that player transfers are the most significant expense in club budgets. Managing football clubs with high budgets will certainly be possible through successful accounting practices. Conducting commercial activities in conjunction with sporting activities is of utmost importance. It is at this point that the concepts of finance and accounting in sports emerge, and the "foreign exchange" concept is considered the most important element in football club accounting. Since player transfer payments are made based on the exchange rate, clubs face the issue of foreign exchange management. Understanding the concept is necessary for the qualified management of foreign exchange payments that can create gains and losses in club budgets. This study aims to explain the importance and definition of the foreign exchange concept in football clubs.

"Football is never just football"

Simon Kuper

Football, which is recognized as the most popular sport worldwide today, has become a phenomenon that captures the attention of the masses, regardless of socio-economic status, and is considered as a significant part of a large industry (Öntürk et al., 2019). Going beyond being just a sport, football at times shapes the pulse, structure, and agendas of societies and countries.

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The fact that billions of people follow international football competitions and the recognition of well-known football players (Pele, Diego Maradona, Cristiano Ronaldo, Lionel Messi) by almost the entire world serve as the most important indicators of this.

"The expansion of football to wide geographical areas has triggered the development of football economy. When looking at the on-field dimension of football economy, it involves aspects such as transfer fees paid to players, player salaries, investments in youth development, expenditures for facility development, and salaries paid to coaches. In the off-field dimension of football economy, we can mention high-priced broadcasting rights deals, sponsorship agreements, investments made by owners through club acquisitions, matchday revenues generated from stadiums, and other related items. The growth in the off-field dimension of football economy has directly influenced the on-field aspect and directly served the formation of the commercial football industry"(Saban and Demirci, 2016).

"The poor financial performance exhibited by football clubs in recent years has started to threaten all components of the football economy, making them one of its most significant actors. Overspending by football clubs, surpassing their revenues, has led to an increase in salary and debt burdens, resulting in a significant decrease in profits. The emergence of many football clubs that spend a large portion of their income on financial expenses is a clear indication of a departure from financial discipline"(Güler, 2019).

Football ranks among the most popular sports for spectators, to the extent that millions of dollars/euros are spent in the football sector each day, and the transfer value of football players increases every year (Singh and Lamba, 2019). As a result, football clubs are considered the most important building blocks of this industry, representing recognition, popularity, and becoming an integral part of society.

"Some people believe that football is a matter of life and death.

I can assure you it is much more than that"

Brian Clough

The sports world can be seen as a large-scale business, and therefore, accounting plays a significant role in sports. Sports clubs and organizations utilize accounting and financial management processes to effectively manage their income and expenses. The accounting needs of sports clubs and organizations are similar to those of any other business.

These needs include maintaining financial records, creating budgets, conducting financial analysis, preparing tax returns, managing operational budgets, cash flow management, investment planning, and risk management. Due to their often complex financial structures, sports clubs and organizations require accurate accounting and financial management processes. Additionally, due to the competition in the sports industry, proper financial planning and analysis are crucial for the success of a sports club or organization.

Football clubs, as the most significant component of the football industry, are at the forefront of all football stakeholders. The fact that clubs hold such an important position is considered to be their role in shaping the environment that constitutes the industry and being the official institutions of football finance. While national and international federations are generally accepted as the most important football organizations, football clubs constitute the units that form the financial market of football.

When looked at within the scope of sports activities, sports clubs, which have transformed into an economic sector, require systematic management to sustain their operations, given the significant budgets involved. Starting as associations, sports clubs have gradually moved towards corporatization and going public, driven by the impact of reaching a large audience. The listing of clubs on the stock market through initial public offerings (IPOs) has led to important developments in terms of financial reporting, in accordance with capital market regulations. The implementation of International Financial Reporting Standards in our country has brought about the obligation for sports clubs to comply with these rules, emerging as the most significant aspect of these advancements. The introduction of the UEFA Financial Fair Play Regulations by the Union of European Football Associations (UEFA) has further highlighted the importance of reporting standards (Sevim and Bülbül, 2020).

Transfer payments are considered the most significant determinant of the capital market in football. The revenue and expenses within the football industry are primarily based on transfer budgets. When examining the income and expenses of football clubs (excluding sporting success), transfer payments come to the forefront. Globally, football is characterized by the intense progress of player transfers, primarily from Europe and South America, and the increasing prevalence of intercontinental transfers, with transfer fees reaching amounts as substantial as the budgets of some countries.

The desire for sporting success has driven clubs to build squads consisting of quality players. This situation affects both sporting and economic success.

For clubs that make high-quality transfers to improve squad quality, one of the significant barriers to sporting success is removed. "Establishing a structure that generates revenue from player sales is considered a crucial determinant of economic success for clubs" (Demirci, 2017).

"When I'm away from football, I'm like a baby without its pacifier"

Ruud Gullit

Over the past twenty years, the acceleration of clubs' corporatization processes and the transition to a systematic financial operation (Aydın, 2007; Soysal, 2010; Güven, 2010; Devecioğlu et al., 2012; Çalkaya, 2018; Dayı and Çilesiz, 2020) has led to increased revenues and expenses. Factors such as compliance with financial fair play criteria and the financial difficulties faced by football clubs worldwide after the Covid-19 coronavirus pandemic have brought to the forefront the impact of foreign exchange rates on clubs aiming for sporting success through this system.

The term "kambiyo" in English is commonly referred to as "foreign exchange" or "currency exchange." It encompasses the process of converting one currency into another for various purposes such as international trade, investment, or financial transactions. The exchange rates between different currencies determine the value at which the conversion takes place. The management of foreign exchange involves monitoring and strategizing to minimize the risks associated with currency fluctuations and ensure efficient handling of international financial activities.

Foreign exchange management in football clubs is generally considered as part of financial operations. To summarize foreign exchange management, it involves a club monitoring exchange rates and developing risk management strategies in transactions conducted using foreign currencies. Football clubs often utilize foreign exchange methods in player transfers. Foreign exchange management is related to exchange rates and international currency transactions, directly impacting clubs' revenues and expenses. Football clubs can generate profits or losses from foreign exchange payments, and global economic movements directly affect this situation.

Foreign Exchange Rates: Football clubs can generate revenue in various currencies due to international transfers, sponsorship agreements, and international broadcasting rights. Therefore, clubs need to closely monitor foreign exchange rates and convert their revenues into their base currency. Fluctuations in foreign exchange rates can impact clubs' revenues, and hence, foreign exchange management strategies can be implemented.

Hedging: Some clubs may use hedging methods to mitigate the risks associated with foreign exchange rate fluctuations. Hedging involves using financial transactions to protect against future currency exchange rate fluctuations. For example, clubs can engage in transactions at a specific exchange rate using financial instruments such as forward exchange contracts or options. This can help clubs reduce financial risks arising from unexpected currency rate fluctuations.

Cash Flow Management: Football clubs typically have cash flows related to transfer fees, wages, and other expenses. Managing and balancing these cash flows requires clubs to pay attention to foreign exchange management. Cash flow management strategies are crucial for clubs to make timely payments.

"Football is simple, but playing simple football is the hardest thing"

Johan Cruyff

Cost-Effective Financing: Football clubs may need financing for costly activities such as major transfers or infrastructure projects. In such cases, clubs can consider cost-effective financing options. They can raise funds through financial instruments like loan agreements or bonds. Foreign exchange management strategies can help optimize these financing processes.

Revenue and expenses in foreign currency: Football clubs conduct many transactions, such as transfer fees, player salaries, participation fees in international tournaments, in different currencies. Therefore, it is important for clubs to closely monitor foreign exchange rates and plan their expenses accordingly.

Risk management: Foreign exchange management aims to minimize the risks that may arise from fluctuations in exchange rates. Football clubs can be affected by sudden changes in exchange rates, which can lead to financial difficulties. Therefore, clubs should develop hedging strategies against exchange rate fluctuations and manage their risks.

Foreign exchange market and financial instruments: Football clubs typically conduct foreign exchange transactions through banks. Banks provide access to the foreign exchange market, where clubs can buy and sell currencies. Additionally, clubs can protect themselves against exchange rate fluctuations by using financial instruments such as forward exchange contracts.

Professional consultancy: Foreign exchange management can be a complex area, and football clubs often seek support from specialized professional consultants in this field. Financial advisors can assist clubs in developing exchange rate strategies, analyzing risks, and providing effective solutions.

"Football is not brain surgery, it's a great time"

Michelle Akers

Financial discipline: Football clubs need to be cautious about foreign exchange management and financial discipline in general. Poor foreign exchange management or incorrect financial decisions can lead to financial difficulties or borrowing problems for clubs. Clubs should manage their budgets carefully and adopt sound financial policies.

Financial developments in football clubs have been a significant focus in recent years. Here are some key financial developments in football clubs:

Increased Revenues: Football clubs have witnessed a substantial increase in their revenues, mainly driven by lucrative broadcasting rights deals, sponsorships, and commercial partnerships. The globalization of the sport has led to higher revenue streams, enabling clubs to invest more in player transfers and infrastructure.

Rising Transfer Fees: The transfer fees for players have skyrocketed in recent times, with record-breaking deals becoming more common. Top-tier clubs are willing to spend large sums of money to acquire talented players, resulting in a surge in transfer market valuations. This trend has had both positive and negative impacts on club finances, as it allows for player recruitment but also increases financial risks.

Financial Fair Play Regulations: To promote financial stability and fair competition, governing bodies such as UEFA have implemented Financial Fair Play (FFP) regulations. These rules require clubs to balance their income and expenditures, ensuring they do not accumulate excessive debt or overspend beyond their means. FFP has aimed to create a more sustainable financial environment in football.

Investment and Ownership Structures: Football clubs have attracted significant investment from wealthy individuals and corporations worldwide. Ownership structures have become more complex, with foreign ownership and billionaire investors becoming prevalent. This has injected substantial capital into clubs, leading to increased spending power and the ability to attract top talent.

Emphasis on Financial Sustainability: With the recognition of the potential risks associated with excessive spending, many clubs have shifted their focus toward financial sustainability. They aim to balance their books, reduce debt, and operate within their means while maintaining competitiveness. This shift has led to a greater emphasis on youth development, cost-effective transfer strategies, and responsible financial management.

Technological Innovations: Technology has played a crucial role in financial developments within football clubs. Advanced data analytics, financial management systems, and digital platforms have enabled clubs to enhance their financial operations, optimize revenue generation, and streamline administrative processes.

COVID-19 Impact: The COVID-19 pandemic had a significant impact on football clubs' finances, disrupting matchday revenues, broadcasting income, and sponsorship deals. Many clubs faced financial challenges, leading to salary cuts, transfer market adjustments, and reliance on government support. The pandemic highlighted the importance of financial resilience and contingency planning.

Overall, football clubs have experienced notable financial developments, including increased revenues, higher transfer fees, regulatory measures, evolving ownership structures, a focus on financial sustainability, technological advancements, and the impact of the COVID-19 pandemic. These developments have shaped the financial landscape of football and continue to influence clubs' financial strategies and operations.

"God gives gifts to everyone. Some can write, some can dance. He gave me the skill to play football, and I am making the most of it"

Ronaldinho

"I never dreamed of being a millionaire. I dreamed of being a football player"

Victor Cruz

The high level of loans used by clubs in foreign currencies increases their foreign exchange losses. Additionally, when the transfer fees and annual salaries of foreign players are denominated in foreign currencies, clubs face increased foreign exchange losses when the exchange rate rises. To protect their own currency, the government prohibits domestic players from signing contracts in foreign currencies, which significantly reduces clubs' foreign exchange losses. It is recommended that clubs utilize derivative financial instruments to hedge against exchange rate risks.

Exchange rate fluctuations pose a significant risk for clubs with foreign players. One of the major expenses for clubs is foreign exchange losses. To mitigate the impact of exchange rate risks, clubs are advised to consider derivative market products. By paying premiums for these instruments, clubs can take measures against significant foreign exchange losses. During periods of volatile exchange rates, susceptibility to external factors, and fragile national economy, it is advisable for football clubs, especially for long-term loans, to utilize their own currency.

In conclusion, football clubs should be cautious about foreign exchange management and develop appropriate strategies to minimize risks. Seeking professional consultancy and ensuring financial discipline can help clubs maintain a healthy financial structure. One important recommendation in foreign exchange management for football clubs is to use the "exchange rate fixing" method in player and manager contracts to mitigate fluctuations in exchange rates. Additionally, clubs should avoid high-cost transfers and refrain from paying above the market value based on a player's statistics. It is essential to pay attention to contracts with player agents and ensure there are no misleading information. In volatile and unpredictable global economic situations, football clubs can suffer foreign exchange losses when they pay transfer fees exceeding their revenues due to currency fluctuations. By focusing on developing young players and selling them at higher values in foreign currency, clubs can generate foreign exchange gains.

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