FINANCIAL PERFORMANCE OF FOOTBALL CLUBS IN KENYA
CASE OF KENYAN PREMIER LEAGUE

BY

LWANGU KEVIN MMBAYA

D61/67487/2011

SUPERVISOR

DR. JOSEPHAT LISIOLA LISHENGA

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE IN MASTER OF BUSINESS ADMINISTRATION OF THE UNIVERSITY OF NAIROBI

OCTOBER, 2013

DECLARATION

I declare that this research project is my original work and has never been submitted to any other University for assessment or award of a degree.

Signature…….. Date……

Lwangu Kevin Mmbaya

D61/67487/2011

This project has been submitted with my authority as the university supervisor.

Signature ……Date……

Dr. Josephat Lisiolo Lishenga

.

DEDICATION

To my family members and all those who supported me in the completion of this proposal writing.

Thank you and God bless you abundantly.

ACKNOWLEGEMENT

The pursuit of knowledge is a humbling experience; it makes one realize just how much he doesn't know. My sincere gratitude goes to the University of Nairobi for granting me the opportunity to pursue my post graduate degree. I appreciate the efforts of my supervisor Dr. Josephat Lisiola Lishenga bringing out the best in me. I wish to acknowledge my parents for their moral support and continued encouragement. I also wish to acknowledge my wife Angela Mugabe for her continued support throughout the entire period I was undertaking my MBA.

To all of you who played a role directly or indirectly in the successful completion of my studies but whom I am not able to mention individually, I say THANK YOU. Indeed "It takes a village to raise a child" and the greater challenge of giving back to the society lies ahead. May the almighty God enable me transform the great ideas I have attained into a reality.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

FC -Football Club

FKF -Football Kenya Federation

KPL -Kenyan Premier League

PKF -Pannell Kerr Forster

ABSTRACT

This study is about the financial performance of football clubs in Kenya case of Kenyan premier League. The study had one objective to achieve: To analyze the financial performance of football clubs in Kenya.

The research design was a descriptive study. Data was collected using financial statements and other sources of financial data of the selected 16 Kenyan premier league clubs. Descriptive, correlation coefficients and regression analysis was used to analyze the financial performance. The findings were presented in tables. It was also clear that there was a significant relationship between the financial performance of the football clubs in the premier League the financial performance variables represented by R^2 value of 0.935 which translates to 93.5%.

The study confirmed that the profitability of the Kenyan Premier League clubs is majorly affected by return on assets and the liquidity of football clubs in the league. The analysis further suggest that clubs should have strong financial performance policies in using its total assets effectively and finding ways of sustaining high liquidity ratios to guarantee meeting of their obligations in the unforeseeable future. The study recommends that football clubs need to ensure effective utilization of clubs assets to generate returns.

CHAPTER: ONE
INTRODUCTION

1.1 Background of the study

In the last decades, the importance of sport has been steadily increasing both in social and economic terms. Independently on the amateur level, the professional sport has become a stable part in profit-oriented economic structures. The key factor for economic success is a tight identification of fans with a particular sport club and or an athlete. In the first instance, high-quality sport products bring benefits directly from the fans in a form of day-match revenues and souvenirs. Sponsorship, advertisement or broadcasting rights fees are examples of other significant sources of revenues. On the other side, sport events and competitions are often connected with adverse or even illegal behavior such as betting, money laundering and corruption (FATF, 2009).

Football today has become a capital market, the main characteristic of which is the investment of uncounted billions. Extravagant expenditure for transfers, astronomical sums for signing of contracts with footballers, disputes and battles among sponsors to get 'star' footballers to promote and advertise their products, endless negotiations to obtain a share of the TV rights, and professional managers trying to find the model team for potential investors, piece together the current soccer environment (Dimitropoulos 2010).

Evidence has shown that football is the most popular sport throughout the world and in many countries of the five continents it is widely recognized as a national sport (Elahi, 2004). The fact that stadiums are over flown with millions of football fans throws light on the popularity of football worldwide Along with the growing tendency toward this sport, a lot of dramatic changes have been made to the extent that the current professional football can't be compared with the past (Chester, 2002).

In Kenya there has been no significant achievements recorded on an individual club basis and on the National team which has failed to qualify for both the Africa cup of Nations and world cup champions. This is probably the main reason why the overwhelming majority of the teams appear to be in difficult financial straits, having accumulated great losses. Good financial performance is essential for a league body's or a club's survival and is an important part of good governance. It involves being able to review financial information, effectively manage funds, implement sound financial practices and understand the league body's or a football club's financial position and obligations. Often football bodies or clubs appoint a financial director with some accounting experience to take on this responsibility. However, every board member should have an understanding of a club's accounts and financial reports. This knowledge will help with strategic planning, accountability, corporate governance and effective risk management (Omondi, 2010).

Profit maximization is basically is a single-period or, at most, a short-term goal, to be achieved within one year; it is usually interpreted to mean the maximization of profits within a given period of time. A corporation may maximize its short-term profits at the expense of its long-term profitability. In contrast, stockholder wealth maximization is a long-term goal, since stockholders are interested in future as well as present profits (Morrow, 1999).

1.1.1. Financial Performance

Financial performance is defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or

sectors in aggregation. Closely related to the contingency perspective is the use of measurement techniques such as the balanced scorecard process, causal business modelling, and economic value measurement. Advocates argue that these techniques help companies improve the alignment between their performance measurement systems and their organizational objectives (Young & O'Byrne, 2001).

Any financial performance measure used in managerial compensation, on the one hand, must be correlated highly with changes in shareholder wealth and, on the other, should not be subject to all of the randomness and noise inherent in a firm's stock price. This dichotomy is the fundamental tension a good performance measure must resolve. A recent example of a performance measure that seeks to resolve this tension is economic value added (EVA). This measure, proposed by Stern Stewart Management Services, creatively links the firm's accounting data to its stock market performance (Stewart 1991). Before examining the correlation between shareholder wealth and a performance measure, one must first define the appropriate way to measure changes in shareholder wealth. We contend that shareholders are concerned with the abnormal return they earn in any period, that is, the return they earn in excess of what they expected to earn for a firm within a given systematic risk class. While this return is positive, shareholders have more than covered their risk-adjusted opportunity cost of providing their capital. Conversely, when this return is negative, they have been inadequately compensated for risk. Given this relationship, a good financial performance measure should correlate highly with abnormal stock returns (Bacidore and Boquist,1997).

In addition to conducting the above analyses, the analyst could perform an analysis to determine the current cost of capital and ways to decrease this by changing the financing mix. All these analyses are concerned with the total valuation of the company. Alternative sources of financing are an important subject of analysis, also. Businesses need short,

medium, and long-term financing at various times to remain liquid and profitable. To analyse sources of short-term financing the analyst must study the costs of each source, applying techniques such as present value analysis, compounding analysis, and interest factor analysis. To evaluate alternative sources of long-term financing, security markets, types of securities (such as debt or preferred stock), and common stock values and sales should be analysed (Guzman and Morrow, 2003).

An analysis of sources of long-term financing is linked to the capital structure analysis. Any analysis of a source of long-term financing would have to include a study of the effect of the financing on the company's capital structure as well as the costs and benefits of the financing. Other forms of financing that could be the subject of financial analysis include term loans and lease financing. For either form, the analytical techniques used would include a comparison of that type of financing's present value costs or benefits with the present value costs or benefits of the alter-natives (Guzman and Morrow, 2003).

1.1.2. Profitability

Brigham and Gapenski (1990) observed that firms with very high rates of return on investments use relatively little debt. The practical reason is that highly profitable firms do not need to do much debt financing since their high rates of return enable them to do their financing with retained earnings. This behaviour is consistent with pecking order theory prediction. Firms prefer raising capital, first from retained earnings second from debt and third from issuing new equity. He suggests that this behavior may be due to the costs of issuing new equity. These can be the costs that arise because profitability of a firm, and hence the amount of earnings available to be retained should be an important determinant of current capital structure.

Contrary, Astango (2007) found out that Kenyan firms tend to borrow more when their profits are high. He gives an explanation for this, that high profits serve as an incentive to the firm to invest more and this is what may warrant borrowing for expansion of business, His finding on profitability would be indicative that firms in Kenya do not follow the pecking order theory of capital structure in their financing choices. Atsango also states that there is a significant negative relationship between leverage and profitability. He argued that profitable firms financed most of their investment opportunities from retained earnings and borrowed less to avoid contractual obligations to pay. Equity is more secure in the sense that investors do not demand the required rate of return.

1.1.3 Kenyan Premier League Football Clubs

The Kenyan Premier League Ltd (KPL) is a private company incorporated in October 2003 under the Companies Act 486 of Kenya (Kenyan Premier League, 2003). The KPL is fully owned and managed by the sixteen Premier League clubs which include institutional clubs and community based who participate for the league cup each season. Each season end, two bottom clubs are relegated to the second tier national wide league which do not fall under the ambit of KPL, they are forthwith under the national football body, Football Kenya Federation (FKF). Hence, they do not receive financial support from the league body making them vulnerable to economic shocks as a majority of Kenyan professional football clubs heavily relies on KPL grants for their operations. Before the inception of KPL in 2003, the football industry in Kenya was on the precipice of oblivion due to wrangles in the federation then known as KFF that mutated two splinter groups namely KFF and FKL. hence formation of two parallel leagues, the football clubs could barely honour matches as they operated on donations from well-

wishers and players participated in the league ordinarily on voluntary, the industry was destined to ground to a halt. (Kenyan Premier League, 2003)

With the formation of KPL, a company incorporated to run the professional league on behalf of the warring federations, things started looking up, a rule book of the league was established and sourcing of partners to help finance its activities was rolled out. With limited resources, there was minimal advertising and ultimately there was no clear brand positioning, so it took five years to bring on board a reputable partner, Supersport International, as a broadcast rights holder and as the only single source of revenue for the league in an initial three year deal worth Ksh.263 million. KPL's immediate challenge was to ensure the affiliate teams honour match days and so had to inject a huge junk of this sponsorship (Ksh.38million out of Ksh.77.37million which is 49.11% of total revenue) to clubs for their sustainability (KPL financial reports). This trend has been maintained over the five years that would follow, with 2012 grants disbursements of Ksh.99million at 52.4% of the total revenue. (Kenyan Premier League, 2003)

Given that this is a direct cost for KPL and it still has obligations like league winner's title prize allocation, grants by final rank and equalization grant as well as internal costs like administration, research and development, KPL as is with most African professional leagues, really get a budgetary allocation for investment to deepen its asset base to cushion itself against external shocks like sponsor withdrawal. Income through sponsorship deals are increasingly being weighted towards a handful of big clubs at the top of the professional game, with smaller teams facing a tough battle to compete in this context (PKF, 2011).

1.2. Research Problem

Financial resources and money have become an essential part of the football world today. When competing in the elite division or at international levels, access to financial resources partly determines how successful a football club can be. It's therefore interesting to examine the importance of different aspects of financial resources and how these affects sporting success at the highest level of Norwegian top football (Fløtnes 2011).

Dimitropoulos (2009) studied on the financing of Greek football clubs for a period of 14 years (1993-2006) in his he established that Greek football clubs are highly leveraged, have intense liquidity and profitability problems and face an increased danger of financial distress, despite the increased amounts that football clubs invested during the year 2005.

Fløtnes (2011) investigated the relationship between the performance level of football teams and certain factors of success. He found that several of the suggested factors of success seems to have an impact of football team's performance level. Furthermore he found that there are several reasons for the financially difficult situation of many European football clubs. Among them are a win-maximizing approach rather than a profit-maximizing approach among European football clubs, and a very high cost level which, despite the high levels of income in many clubs, creates a financially instability.
Omondi (2010) found that majority of football clubs top management had lack of commitment; there was no organizational structure and there were inadequate resources hence there is need to know if top management of football clubs in Kenya are making good financial decisions.

Ngucine (2006) carried out a study whose objective was to determine the extent to which self-supporting football clubs in the premier league in sourcing for funding, he found out

that to a small extent the football clubs use outdoor advertisement to attract funds hence there is need to know to what extent does financial performance affect profits of football clubs in Kenya.

1.3. Research Question

To what extent does financial performance affect the profitability of football clubs?

1.4. Objective of the Study

To determine the extent to which financial performance affect profitability of football clubs.

1.5. Value of the Study

This study is meant to help football clubs and professional leagues administrators who will gain insight on financial performance and profitability of the clubs to lay a strong financial base for better performance, sustainability and realization of the true potential of football as an emerging industry.

The study intends to help the sport's policy makers to specific actions that need to be taken by both managers and regulators in order to improve the financial stability of the clubs and the overall competitiveness of the Kenyan football league.

It will be of value to academicians as they find useful gaps that will stimulate interest in further studies.

CHAPTER: TWO

LITERATURE REVIEW

2.1. Introduction

This chapter summarizes the information from the available literature in the same field of study. The specific areas covered in this chapter are the concepts on the Impact of Financial Performance on the Profitability of Football Clubs in Kenya.

2.2. Theoretical Review

2.2.1. Game Theory in Sports

In the section about player wages an idea that one of the reasons for the high employee cost levels in some leagues is due to "wage races" between the teams in a league is presented, and that is due to an overbidding of each other(aggressive strategy)in order to come out on the top. If the clubs rather cooperates(moderate strategy), all the clubs will be better off because then they will in theory be able to keep wages at a lower level, but at the same time maintain status quo on all other areas such as league standing for instance. However, if the clubs enter into such agreements, there will always be an incentive for several of the clubs to break the contract and increase the player salaries, such that these clubs will be better off than the rest. The teams which maintain the contract will experience less success due to poorer players as a consequence of lower salaries (Colman, 1995).

The situation described here is nothing more than classic game theory, and many may recognize this better as The Prisoner's Dilemma this game theory approach shows why any football clubs spend money in excess of their revenues. Let's say few clubs in a

league follow a moderate strategy, while the rest of the clubs follow an aggressive strategy, the clubs with the moderate strategy will have lower costs, as explained above. This seems to be a good solution, clubs with small budgets can adopt a moderate strategy and clubs with a more spacious budget can follow an aggressive strategy. What about the long-term effect, then? Clubs following the moderate strategy will have the risk of being overtaken by the aggressive clubs, which over time can cause reduced revenues (sponsor income, gate receipts, income from television broadcasting etc.),and the worst case scenario: relegation (Colman, 1995).

2.2.2. Agency Theory

Agency theory has been characterized as "a theory of the ownership (or capital) structure of the firm. Agency theory has served as the dominant theme for empirical examinations of the relationship between equity ownership and financial performance. The roots of agency theory are largely grounded in the seminal work of Berle and Means (1932). Berle and Means suggested that a fundamental shift occurred in the early 1900s when owners no longer actively managed their firms. Instead, professional managers with little or no equity in the firm had been acceded day-to-day management responsibility. Given this, the alignment of interests between owners and managers may be compromised. In fact, a central principle of agency theory is that high-ranking corporate officers, acting as the agents of shareholders, can pursue courses of action inconsistent with the interests of owners (Dalton and Certo, 2003).

This potential conflict of interests has become a central focus of corporate governance.

Corporate governance can be described as the processes by which investors attempt to minimize the transactions costs and agency costs associated with doing business within a firm. The ability of equity holdings to address the agency problem and enhance firm financial performance. While agency theory predicts that equity holdings have important

implications for firm performance, the empirical evidence provides no consensus on the relationship between equity holdings by various constituent groups and financial performance. It is noted that the results of studies examining the relationship of equity with firm performance are quite mixed. It can be concluded that it is difficult to draw any firm conclusions since no consensus has developed. (Dalton and Certo, 2003).

2.2.3. Contracting theory

Within the realm of economics, contract theory has to do with understanding how the balance between competency and rewards is achieved. Essentially, contract theory involves the need for communication between an agent and a principal, so that there is a clear understanding of both the needs of the principal and the ability of the agent to meet those needs in a competent manner. Once this state is established, contract theory is then employed to ensure that the agent receives adequate rewards for his or her efforts. One of the easiest ways to understand contract theory is to apply the principle to hiring persons to labor in the workplace. Essentially, a prospective employee will provide information about his or her ability to meet the requirements of a given position. In turn, the employer will need to be in a position to verify the accuracy of the information provided. When the employer is unable to do so, the condition is understood to be asymmetric. Asymmetric information is not necessarily incorrect or false information. However, it does present a roadblock to the employer being able to adequately evaluate the prospective employee (Wise Geek, 2013).

2.2.4. The Pecking order Theory of financing

The pecking order model, argues that adverse selection issues in raising funds by different methods dominate other considerations in the trade-off model such that a hierarchy of funds results. Firms will use internal funds first, then debt and only when such options are

exhausted will they resort to using new equity finance. Under the pecking order model, developed by Myers (1984) and Myers and Majluf (1984), there is a strict ordering or hierarchy of sources of finance. These results from adverse selection issues that arise when the firm has more information about its value than providers of funds. These adverse selection issues are absent when retained earnings are used as the marginal source of funds and are greater for equity than debt finance. Providers of finance therefore require a risk premium that is greater for equity than debt finance. The result is that firms will have a preference for internal sources of funds followed by debt and then, when such sources are exhausted, equity finance will be used. An implication of the pecking order approach is that firms do not have a target level of leverage and their actual level of debt essentially responds to the difference between investment and retained earnings. The pecking order model implies that leverage is decreasing in company cash flow or profitability and increasing in investment, ceteris paribus (Astango, 2007).

2.3. Empirical studies

Guzman and Morrow (2003) studied the Measure efficiency and productivity in professional football teams: Evidence from the English Premier League. They noted that Professional football clubs are unusual businesses, their performance judged on and off the field of play. The study was concerned with measuring the efficiency of clubs in the English Premier League. Information from clubs' financial statements were used as a measure of corporate performance. To measure changes in efficiency and productivity the Malmquist non-parametric technique was used. This was derived from the Data Envelopment Analysis (DEA) linear programming approach, with Canonical Correlation Analysis (CCA) being used to ensure the cohesion of the input-output variables. The study concludes that while clubs operate close to efficient levels for the assessed models,

there is limited technological advance in their performance in terms of the displacement of the technological frontier.

Szymanski and Hall (2003) did a study about making money out of football. In their study they noted that in the US most economists argued that professional sports teams are profit maximising businesses, but it is widely held view in Europe that professional football clubs are not run on a profit maximizing basis. This belief has important implications for the impact of policy measures such as income redistribution that are widely advocated. Their paper looked at the performance of sixteen English football clubs that acquired a stock exchange listing in the mid-1990s. If the European story is true, we would have observed a shift toward profit maximizing behavior at these clubs. The paper found no evidence of any shift in this direction. The result was consistent with the view that football clubs in England have been much more oriented toward profit objectives than is normally allowed.

Nikolychuk and Sturgess (2006) carried out a study on Shaping exit and voice: an account of corporate control in UK sports. The purpose of this paper was to help demonstrate the extent to which socio-cultural and market-oriented incentives jointly contribute to corporate control outcomes that prevail in the UK football industry. The Design or methodology used was Illustrative case studies informed by analysis of financial performance data, discussion with key informants, and review of official documents. The study found that long term performance outcomes were influenced in substantive ways by actions led by shareholder groups pursuing largely non-market-oriented objectives.

Dimitropoulos (2009) studied on the Profitability of the Greek football clubs participating in the first division of the Greek football League, as well as the factors that contribute to this performance, over the period from 1994 to 2004. He established that the profitability

of the football clubs is positively associated to their short run success, but not on the long run success and seasonal uncertainty of the league. Additionally, the size of the club, measured as a fraction of the club's assets, is a distinct factor which affects the financial performance positively. Finally, he established that the level of asset turnover and Return On Assets reported by the clubs proved to have a significant positive impact on profitability suggesting that those football clubs that are able to use their assets efficiently, are more resourceful by means of profitability.

Samagaio et al (2010) used structural equation modeling to examine the linkages between financial performance, sporting performance and stock market performance for English football clubs over the period from 1995 to 2007. The results indicate that there is a strong correlation between financial and sporting latent constructs. Additionally, the study indicates that the sports managers seek to achieve a minimum level of profit and maximize sporting performance. This situation remains even when the club is owned by a group of investors. On the other hand, the confirmatory factor analysis and regression analysis show that financial and sporting factor scores are statistically correlated with stock returns, but not with risk.

Vopel (2011) did a study titled Do we really need financial fairplay In European club football? An economic analysis, this is because any clubs have reported repeated and worsening deficits which have led to record-high debt levels during the last years. The study concluded that Financial Fair Play does not seem to be an appropriate regulation because it is incomplete, of uncertain effectiveness and very costly to monitor compared to potential benefits.

Mazanov et al (2012) did a study whose purpose was to investigate the impact of scandal on investor valuation of sport by examining changes in share prices of three football clubs involved in the 2006 Italian "Calciopoli" scandal. The method used was to analyse Share price variation and volatility across 2006 for over different (qualitatively defined) phases of the scandal. Movements in share price was compared to three benchmark indices – FTSE MIB, DJ Stoxx Europe 600, and DJ Stoxx Europe Football – indexed from 2 Jan 2006. Unadjusted analysis of share price movement matched with events to inform the likely causes of variation. Despite speculation and high volatility, the share price of all three clubs increased by 30 per cent in 2006, outperforming benchmark indices (15 per cent). This suggests the Calciopoli scandal increased the perceived value of the clubs.

Procházka (2012) did a report on the Financial Conditions and Transparency of the Czech Professional Football Clubs. The UEFA approved the Club Licensing and Financial Fair Play Regulation in 2010, which governs the requirements on transparency and financial conditions of football clubs participating at the European cups. The paper focused on the specifics of Czech professional football clubs. The research was carried out in two ways. Firstly, the compliance with information duties set up by Czech commercial law is analyzed. According to the performed empirical survey, a significant number of Czech football clubs submit their financial statements to the Business Register with a delay or they do not submit the statements at all despite the submission is mandatory. This unsatisfactory state of affairs boosts the risk of bankruptcy of football clubs rapidly taking into account an overall poor financial health of Czech football clubs, which is evidenced by the second part of empirical study.

2.4. Summary of Literature Review

From the literature review confirms that there is a link between financial performance and profitability. Whereas several studies have been done on how financial performance impact profitability in football clubs around the world; it does not apply in Kenya where no studies have been carried out on The Impact of financial performance on the profitability of football clubs in Kenya. It is therefore clear that there is need to carry out this study.

CHAPTER: THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the proposed research method. This includes the research design, target population, sampling design, data collection and techniques for data analysis.

3.2 Research Design

This study employed a descriptive design approach. Descriptive designs are used in preliminary and exploratory studies to allow researchers to gather information, summarize, present and interpret for the purpose of clarification (Orodho2004) Borg and Gall (1989) note that descriptive research is intended to produce statistical information about aspects of education that interest policy makers and educators. The choice of the descriptive research design is based on the facts in the study, the research is interested on the state of affairs already existing in the field and no variable would be manipulated.

3.3 Population and Sample

The study population was of the registered football clubs in Nairobi, Kenya. According to Kenyan Premier League there are 16 football clubs (see appendix ii). All the 16 football clubs were used; there was no need of sampling.

3.4 Data Collection

The researcher used financial statement and other sources of financial data of the 16 Kenyan premier league clubs in Nairobi. The sample of the study comprised data from 16 football clubs participating in the Kenyan Premier League over the period from 2010 to

2012 this is because there is need to be sure of enough firm-year observations in order to conduct the time-series tests and to control for any bias that maybe exist on the financial data. The use of secondary data was to establish the impact Financial Performance on the Profitability of Football Clubs in Kenya. The study respondents included club managers of 16 Kenyan premier league clubs in Nairobi or other persons carrying the same responsibilities.

3.5 Data Analysis

The data was analyzed by use of multivariate data analysis techniques as it allowed simultaneous investigation of more than two variables. The researcher utilized the Stastical package for Social Sciences (SPSS) software.

The following analytical model was used

$$PR_i = \beta_o + \beta_1 SIZE + \beta_2 LIQ + \beta_3 CF + \beta_4 AT + \beta_5 ROA + e$$

Where: PR(Profit) is the ratio of Net earnings to sales, SIZE is the natural logarithm of total assets, LIQ is the ratio of current assets to current liabilities, CF is the ratio of cash flow to total assets, AT is the asset turnover ratio measured by net sales over total assets, ROA is the returns on assets estimated as net income over assets and $\beta_o, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$, are weights of respective variables and a margin of error of ± 0.05 as represented by e.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This study was carried out to establish the impact of financial performance on the profitability of football clubs in Kenya. Data was collected from Kenya Premier League financial reports. The findings are presented as follows:-

4.2 Descriptive Statistics

Table 4.1: Descriptive Statistics of the sample variables (yr 2010-2012)

Variables	Mean	Median	St. Deviation
Profit	-2.67	-1.02	3.46
Asset size	2.2	2.56	0.42
Liquidity	0.32	0.22	0.68
Cash flow	1.22	0.21	2.98
Asset Turnover	0.35	0.21	0.32
Return on Assets	-0.16	-0.14	0.41

Table 1 includes the descriptive statistics of the sample variables for the whole period of investigation from 2010 to 2012. From the data above we can conclude that the Kenyan premier League clubs have reported losses through the period under investigation as the median net profit margin is negative and up to -1.02.

The size of the total assets of the football clubs in the premier league under the period of review stands at 2.2, which is below average as per the median of 2.56.

The liquidly mean of 0.22 is an indicator that most of the clubs in the premier league may not be able to honour short term financial obligations when they fall due, it follows that

the ability to turn short-term assets into cash to cover debts is of the utmost importance when creditors are seeking payment.

The median Asset Turner value of 0.21 indicates that professional football clubs do not use their assets efficiently to generate sales and this fact is depicted in the median values of Return on Assets which is negative of 16 per cent. This indicates bad financial management.

4.3 Regression Analysis

The study also sought to determine the relationship that exists between financial performance making variables and Profitability of football clubs in Kenya mainly the Premier League. The researcher conducted a regression analysis to explain this relationship. The study adopted the following linear regression model to depict the expected relationship between the above variables: $PR_i = \beta_o+\beta_1 SIZE+ \beta_2 LIQ +\beta_3 CF+ \beta_4 AT+ \beta_5 ROA +e$

Where: PR(Profit) is the ratio of Net earnings to sales, SIZE is the natural logarithm of total assets, LIQ is the ratio of current assets to current liabilities, CF is the ratio of cash flow to total assets, AT is the asset turnover ratio is football club's net sales to its total assets, ROA is the returns on assets estimated as net income to the clubs assets and $\beta_o,\beta_1,\beta_2 ,\beta_3, \beta_4,\beta_5$, are weights of respective variables and a margin of error of ±0.05 as represented by e.All the five independent variables were also measured using the financial data from the football clubs. The results are illustrated and explained in table 4.2 below.

Table 4.2: Test for Coefficients

Model	Non standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.328	5.842		0.57	0.599
Asset Size	-0.137	0.649	-0.137	-0.212	0.843
Liquidity(LIQ)	0.523	0.547	0.802	0.956	0.393
Return on assets(ROA)	-0.968	0.798	-0.815	-1.212	0.292
Asset Turnover	0.658	0.378	-1.289	-1.741	0.157
Cash Flow	2.909	5.816	-0.346	-0.5	0.643

Dependent variable: Profit

$PR=3.328+ (-0.137\ x_1) + (+\ 0.523\ x_{2)} + (-0.968\ x_3) + (+0.658\ x_4) + (2.909\ x_5)$

Where: x_1 = SIZE is the natural logarithm of total assets; x_2 = LIQ the ratio of current assets to current liabilities; x_3 = ROA is the returns on assets estimated as net income over assets; x_4= AT is the asset turnover ratio measured by net sales over total assets and x_5= CF is the ratio of cash flow to total assets. The model illustrates that when all variables are held at zero (constant), the value of Profit would be at 3.328. However, holding other factors constant, a unit increase in assets size would lead to 0.137 decrease in profit, a unit increase in Liquidity would lead to 0.523 increase in Profit, a unit increase in Return on Asset would lead to 0.968 decrease in profit, a unit increase on Asset Turnover would lead to 0.658 a decrease in profit and a unit increase in Cash flow would lead to 2.9 increase in profit.

The study above also attempts to establish that the assets size, Return on Assets, and the cash flow have a negative correlation with the cash flow having the highest negative

coefficient relation of -2.9 meaning that the clubs had insufficient cash flows to fully finance their operations.

Table 4.3: COEFFICIENT OF DETERMINATION, R^2

The table below shows the coefficient of correlation (R) and coefficient of determination (R^2) between the profit and the financial variables for the years 2010 to 2012

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.935[a]	0.875	0.718	1.749

a. Predictors: (Constant), CF, Total Assets, liquidity, ROA, Assets turnover

b. Profit

The coefficient of correlation between the profit and the financial variables of the football clubs for the years 2010 to 2012 was 0.935. This gives a strong direct relationship. This relationship implies that the profitability of football clubs is more sensitive to the mix of financial variables thus distinct financial making decisions are needed to be implemented for a club to achieve higher profitability.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This study was carried out to establish the impact of financial performance on the profitability of football clubs in Kenya. The study had one objective: To what extent does financial performance affect the profitability of football clubs. This chapter presents the summary of findings for the objective mentioned above, the conclusions, limitations, recommendations made based on findings and the suggestions on areas that need to be researched as far as this study is concerned.

5.2 Summary of findings

The study established that there is an influence of financial performance on the football clubs profitability. There exists a positive relationship between the financial performance and the profitability of football clubs.

The results suggest that the profitability of the Kenyan Premier League clubs is majorly affected by return on assets (ROA) and the liquidity of football clubs in the league. The analysis further suggest that clubs should have strong financial performance policies and decide to utilize on their total assets and finding ways of sustaining high liquidity ratios which will aid in mitigating on the clubs current liabilities.

5.3 Conclusions

The study concludes the profitability of football clubs is majorly affected return on assets and Liquidity management. There is need for the football clubs to implement strong financial performance practices majorly on assets utilization to generate more funds. This is supported by the results from a regression analysis conducted that indicated that there is

a strong positive relationship between financial performance and Profitability and its negative coefficients on the return on assets and less ratio on Liquidity.

5.4 Recommendations

The study recommends that football clubs need to ensure effective utilization of clubs assets. The football clubs should instill proper financial management decisions in order to sustain the football growth in the entertainment industry.

5.5 Limitations of the study

There are limitations to this study that should be considered when interpreting the study results. First the study focused only football clubs in the Kenyan premier league and not all the football clubs in Kenya

Some of the football clubs in the League were not included in the sample due to unavailability of their financial reports, thus the reduction in sample size may have affected the calculations of this study.

5.6 Suggestions for further Research

It is important that a similar study be conducted with a bigger sample and time horizon by using advanced time series models to enhance our understanding of the impact of financial performance on profitability of all football clubs in Kenya.

REFERENCES

Atsango, C. (2007). Study of The Influence Of The Corporate Tax Rate On The Capital Structure Of Quoted Companies At The Nse. Unpublished MBA project UON

Baron J. (2008). Thinking and Deciding, 4th Edition New York, NY: Cambridge University Press.

Bacidore, B. and Boquist, A.(1997). The Search for the Best Financial Performance Measure

Borg, W. R., & Gall, M. D. (1989). Educational research. New York: Longman.

Chester, Sir Norman, (2002). For football research, British Football on Television, fact sheet 8, university of Leicester, www.Le.ac.uk/sneefr/.

Colman, A.M (1995). Game Theory and Its Applications in the Social and Biological Sciences.2nd edition. Routledge, London.

Cooksey R.W. (1996) the methodology of social judgement theory. Thinking and Reasoning 2, 141–173.

Dalton, D. and Cert, S. (2003).Meta-Analyses Of Financial Performance And Equity: Fusion Or Confusion?

Dimitropoulos, P. (2009). The accounting and tax legislation of the Greek football clubs. Choragi, 2, 1-2, 55-64.

Dimitropoulos, P. (2010). Analyzing the profitability of the Greek football clubs: Implications for financial decision making. Business Intelligence Journal, 2, 1, 159-169.

Elohim, A., N. Sajadi. (2004). "The current obstacles to the expansion of income coming from sponsorship in the football industry of Islamic Republic of Iran" management magazine, pp.: 1.

Financial Action Task Force (2009), "Money Laundering through the Football Sector." Paris: FATF/OECD.

Fløtnes. G. T. (2011) Factors of success for Norwegian top football clubs; and why profit making is difficult for European football clubs.

Guzman, I. and Morrow, S. (2003). Measuring efficiency and productivity in professional football teams: Evidence from the English Premier League.

Hammond (1998) the State, War and the State of War, Cambridge: Cambridge University Press

Kenyan Premier League Limited. (2003). Kenyan Premier League www.kpl.co.ke, accessed: 16/07/2013.

Mazanov, J. Tenero, G. and Sharpe, K. (2012). "Scandal+football=a better share price", Sport, Business and Management: An International Journal, 2(2)92 – 114.

Myers, S. and Majluf, N. (1984). Corporate Financing and Investment Decisions when

Firms Have Information Investors Do Not Have", Journal of financing economics 13, 187-222.

Morrow, S. (1999). The new Business of football, Scottish affaires, 47: 48- 57.

Nikolychuk, L. and Sturgess, B (2006). Shaping exit and voice: an account of corporate control in UK sports. 45(5) 841-852.

Ngucine, M. (2006) A Survey of promotional mix used by self-supporting football clubs in the Kenyan Premier League to attract funding. Unpublished MBA project UON.

Omondi, E. (2010) Strategic Planning of football clubs in the Kenyan Premier League. Unpublished MBA project UON.

Orodho, J.A. (2004). Element of Education and Social Science Research Methods. Nairobi: Masola Publishers.

Procházka, D. **(**2012) Financial Conditions and Transparency of the Czech Professional Football Clubs Prague Economic Papers, 4,

Samagaio, A. and Couto, E. (2010). Sporting, financial and stock market performance in English football: an empirical analysis of structural relationships.

Schoemaker PJH (1982). "The Expected Utility Model: Its Variants, Purposes, Evidence and Limitations". Journal of Economic Literature 20: 529–563.

Starmer, C. (2000). "Developments in Non-expected Utility Theory: The Hunt for a Descriptive Theory of Choice under Risk," Journal of Economic Literature, American Economic Association, vol. 38(2), pages 332-382, June.

Stewart, G, Bennett UI, (1991). *The Quest for Value.* New York Harper Business.

Szymanski, S. and Hall, S. (2003). Making money out of football.

Tom Walker (2012). Increase Profit by Enabling Informed Decision Making.

Vopel. H. (2011). Do we really need financial fairplay In European club football? An economic analysis.

Young S.D., & O'Byrne, (2001).EVA and Value-Based Management:A Practical Guide to implementation.New York;McGray Hill

http://www.wisegeek.com/what-is-contract-theory.htm, Downloaded on 9thOctober, 2013.

Appendix

List of Football Clubs in the Kenyan Premier League

1. A.F.C. Leopards FC
2. Bandari FC
3. Chemelil Sugar FC
4. Gor Mahia FC
5. Kakamega Homeboyz FC
6. Karuturi Sports FC
7. KCB FC
8. Mathare United FC
9. Muhoroni Youth FC
10. Nairobi City Stars FC
11. Sofapaka FC
12. Sony Sugar FC
13. Thika United FC
14. Tusker FC
15. Ulinzi Stars FC
16. Western Stima FC

Source: http://www.kpl.co.ke/kenya/logs