

Manchester United: The Glazer Takeover

TEACHING NOTE

Prepared by Robert M. Grant.

■ SYNOPSIS ■

Manchester United was Britain's most successful football (soccer) club during the period 1992–2001, winning the English Premier League and Football Association (FA) Cup on multiple occasions and also achieving the pinnacle of European football – the Champions' League Cup.

Man United was also Europe's most successful football club in commercial terms. As a public limited company (PLC), it displayed sound corporate governance and it pioneered international marketing and brand development in professional soccer. Unlike most other leading soccer clubs in Britain and Europe, it was profitable and had a strong balance sheet with no debt.

The acquisition of United by Malcolm Glazer and his family was a shock to the club – to the fans in particular. The Glazers were Americans with little interest in or knowledge of soccer. More importantly, the takeover was almost wholly debt financed: Man United would be saddled with about £500 million of debt – implying a debt/equity ratio of nearly 3:1. The implication drawn by many observers was that Man United would find it increasingly difficult to compete with Chelsea – the new leader of the English Premier League, bankrolled by the Russian billionaire Roman Abramovitch.

The focus of the case is the decisions faced by the new owners – specifically Joel Glazer. Among the six members of the Glazer family appointed to the Man United board, Joel was the principal representative of the family's ownership interests.

The case raises three main strategy issues:

1. The relationship between strategic and financial goals. The Glazer family's primary interest in Man United appears to be financial. The priority for the fans, team, and most other stakeholders is the team's success on the pitch. How are strategic and financial goals to be reconciled? And, to what extent is financial success an outcome of success on the pitch?
2. What is the basis of competitive advantage in professional soccer? Ultimately, sporting success is the result of team capabilities – most fundamentally, the ability to score more goals than opponents. Why do some organizations achieve superior capabilities – is it all about the resources available to them, or are there other factors involved?
3. How can organizational capabilities be developed? While football – and professional sports in general – may seem like a special case, I propose that the underlying issues (e.g. developing coordination and building commitment to organizational goals) are similar for business enterprises and most other types of organization.

■ TEACHING OBJECTIVES ■

With this case, there are two main aims:

- To broaden the range of organizations to which students apply strategic analysis. Specifically, to deploy the analysis of competitive advantage and analysis of resources and capabilities to a professional sports organization.
- To gain insight into the nature, structure, and determinants of organizational capabilities and the processes through which capabilities can be developed.

■ POSITION IN THE COURSE ■

I use the case in the section of the course that deals with the analysis of resources and capabilities (drawing primarily on Grant, *Contemporary Strategy Analysis*, Chapter 5).

■ ASSIGNMENT QUESTIONS ■

1. What should Glazer's strategic priorities be for Manchester United? What targets should he establish for his management team?
2. What determines organizational capability in football (soccer)?
3. What can Glaser do to help Manchester United regain its position as England's best football team? Should Glaser retain Alex Ferguson as head coach/team manager?

■ READING ■

The core reading is: R. M. Grant, *Contemporary Strategy Analysis* (6th edn), Blackwell Publishing, 2008, Chapter 5, "Analyzing Resources and Capabilities." The key sections relate to the identification and appraisal of resources and capabilities (pp. 130–49) and the development of organizational capabilities (pp. 149–56). In addition, Chapter 7 discusses how competitive advantage is established and is sustained (pp. 205–14). As supplementary reading, see Berman, Down, and Hill, "Tacit Knowledge as a Source of Competitive Advantage in the NBA" (*Academy of Management Journal*, vol. 45, Feb. 2002, pp. 13–31) for a discussion of competitive advantage in professional team sports.

■ CASE DISCUSSION AND ANALYSIS ■

Opening the Discussion

I begin with the Glazer takeover and ask the class: "Are the fans right: is the acquisition of Man United by the Glazer family bad for the club?"

This requires an assessment of two factors: first, the financial impact; second, other dimensions of the relationship between owners and team performance. The immediate impact of the takeover is that the club goes from having no debt to about a billion dollars of debt. Given the difficulties of covering costs in European professional football, the implication is that the club will find it more difficult to finance major expenditures on acquiring players and new facilities. The situation is the reverse of other acquisitions of English clubs by private investors: in the case of Chelsea, a cash-strapped club was acquired by a multi-billionaire able and willing to lavish vast amounts of money on the team.

Does the shift from public to private ownership or the fact that the new owners are foreigners with little apparent interest in soccer make any difference? The transparency and distributed ownership of a public company may allow fans to feel more directly involved in the club. Ownership by foreign investors may also have the effect of undermining the local loyalties and sense of belonging that are important to sports teams.

As for the Glazers' ignorance of football, it could be argued that this is a positive – a major problem at many professional soccer teams is owners interfering with team selection and coaching decisions. The key requirement for owners is knowing how to appoint effective managers and coaches: here the Glazers have a strong track record with the Tampa Bay Buccaneers.

Goals for the Club

After exploring some of the issues surrounding the controversial acquisition, I turn to the Glazers: what goals should they establish for Man United. In particular, should their focus be on financial returns or on boosting the sporting performance of the team? "Both" is not a good answer: improving Man United's team performance is likely to require significant expenditure on new players that will cause short-term cash flow and profits to deteriorate.

Looking beyond the short-term, it is interesting to investigate the relationship between sporting performance and financial performance. As Table 6.4 shows, 70% of revenues to the English national league clubs derive from TV, sponsorship, and commercial activities (mainly brand licensing). These revenues are heavily concentrated among the most successful teams. TV rights are negotiated by the leagues – the Premier League and Champions League. Not only does the distribution of TV income depend on a club's performance within the league, a club's presence within the league also

depends on its performance. Thus, to compete in the Champions League, a team must finish in the top four of the Premier League; to stay in the Premier League, a team must not fall into the three bottom places. Table 6.8 shows the close relationship between team performance and revenues.

Hence, the relationship between team performance and financial performance is much closer than in most US professional leagues. For example, the most valuable NFL franchise is the Washington Redskins despite the team's dismal performance over the past decade and a half. The difference is that US professional leagues are not gateways to more affluent international leagues, and US professional leagues do not have systems of automatically demoting the teams that perform the worst.

TV revenues show the most direct relationship between sporting success and financial performance, but similar forces exist in licensing and sponsorship revenues. Companies that sign multimillion sponsorship deals are interested in associating their brands with the most successful teams. Similarly, licensing revenues from the manufacturers of clothing, sporting equipment, and other goods and services depend on the strength of support a team has outside its home city. While local fans may support their home team through "thick and thin," the wider fan base tends to be more fickle. The international demand for shirts and other team-branded products is heavily focused on a few leading teams: Man United, Real Madrid, AC Milan, and Barcelona.

What Determines Team Performance?

Having concluded that the dominant priority for the Glazers is to restore Man United's former performance as England's most successful football team, the question is: how? Let us look at key success factors in European professional football.

The question of what determines team performance in European football tends to elicit three responses:

1. Players,
2. Coaches,
3. Finance to acquire the first two.

On the basis that players and coaches are transferable, they are not sources of sustainable competitive advantage (also the advantage they offer to clubs probably cannot be appropriated by the clubs – they can bargain compensation packages that fully absorb the competitive advantages they confer). Hence, the key resource for any club is *money*.

There is clearly a close association between player quality and team performance: comparing Tables 6.2 and 6.3, we see that the clubs with the highest ranked players – Barcelona, AC Milan, Real Madrid, Manchester United, Chelsea – are also among the top performing clubs. What is less discernable is where great players make great clubs or great clubs make great players. It would appear that the relationship works in both ways.

The case also notes (pp. 81–2):

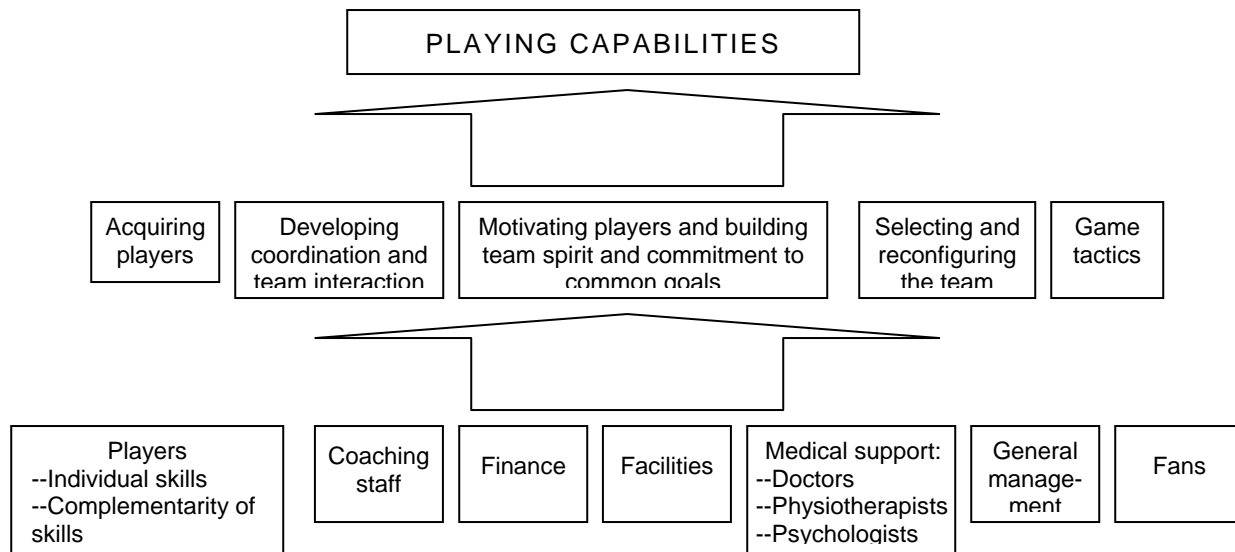
- a) That some teams achieve great success with comparatively few star players (Bayern Munich, Porto, Piraeus, Ajax, Deportivo).
- b) Some clubs spend large amounts of money without achieving outstanding success. Classic examples are Inter Milan during the 1990s and Chelsea during the decade before 2004.

At this point – especially if the class is comprised mainly of North American students – I will ask about other professional sports: are there professional leagues where rich, star-studded teams have been outperformed by frugal teams with few mega-stars? Oft-quoted examples include Oakland in baseball and New England Patriots in football. National competitions also produce interesting results – e.g. the remarkable success of Serbia/Yugoslavia, Spain, and Argentina against the US basketball team in the Olympics and World Championships.

The implication is that there are other determinants of team success. What about coaches? To the extent that the head coach is the team architect, is success down to talented coaches? The problem with this explanation is that coaches who achieve outstanding success with one team, do not necessarily replicate that success with another.

To explore further, we need to consider what coaches actually *do*. The essential role of the coach is to put together a team and to develop the playing capabilities of that team through appropriate training, team selection, and tactical direction.

In shifting attention to team *capabilities*, I return to the determinants of superior team performance, focusing not just on individual resources, but also on the challenge of turning resources into capabilities. The outcome of further exploration is the identification of a broader set of resources, plus an identification of the processes that are involved in converting resources into capabilities.



To probe deeper into this team building, I ask the class to focus specifically on Man United and the role of coach (“manager”) Alex Ferguson. Some of the key points that emerge here are:

- The relevant resources are not solely the players, coaches, and finances to acquire and remunerate them. The chief executive and commercial managers are also important – they hire the coach and raise the revenues to finance the club. So too are the fans: support for the team and its coach are critical motivational factors. Teams with loyal and vociferous supporters can work wonders in lifting team morale. As well as Manchester United, Liverpool is a club famous for its fervent fans.
- Just as supportive relationships are important between team, coach, and fans, so too is the relationship between coach and top management is of critical importance. A key strength of the English system is that there is typically a clear division of responsibility between the coach (the “manager”), who is responsible for all team-related decisions, and top management, which is responsible for commercial and financial affairs. With several continental European clubs (Real Madrid in particular), responsibilities are less clearly demarcated, resulting in conflict between coach and CEO/president over team selection, transfer decisions, and tactics.
- There is a crucial trade-off between acquiring players with highly developed skills and “growing your own” talent. Apart from the financial advantages of the latter, it may also be easier to develop team coordination among younger players whose skills are more malleable.
- Building team capabilities is a medium- to long-term endeavor. Ferguson’s building of the amazingly successful Man United team of 1993–2001 was based around a group of players, including Beckham and Giggs, who were signed as schoolboys in the late 1980s.
- Flexible coordination and the ability to reconfigure teams with varying player combinations gives tactical versatility, and also allows teams to compensate for the loss of individual players due to injury. Ferguson is notable for his ability to develop a team where individual players can switch roles and positions and adapt tactics to circumstances.
- Motivation is a critical role of the coach. This is not just inspiring the team, but also careful mentoring and management of relationships with individual players. The psychology involved can be complex: Ferguson mixes rage and withering criticism of his players with steadfast loyalty and support.

Recommendations

So, what about recommendations for the new owners? Here are a few suggestions:

1. Build relations with fans. The loyalty of Man United fans is essential to the success of the team and the revenue stream of the club. The Glazers have work to do on this front. Appointing Joel Glazer as the principal family spokesperson and front-man on the board makes sense given his interest in and knowledge of soccer.
2. Manage for improved financial returns. Man United has been the most commercially progressive and innovative football club in Europe – and the most successful at building a global fan base. It's not obvious that the Glazers have much to add here. However, the transfer of ideas and experiences between the executives of Man United and Tampa Bay Buccaneers seems sensible.
3. The key challenge has got to be reestablishing Man United's position as the leading team in England and among the top four in Europe. The key issues here include:
 - a) Setting a budget for new players. How much freedom should be given to the coach in acquiring new players?
 - b) The future of Ferguson. Is it time for a change? Ferguson has been doing the job for 20 years. During that time he has built two successful teams. The second, and more successful, is now being dismantled. Can Ferguson do it again? As Ferguson jettisons some of his players from the 1999 triple-championship team (Beckham, Keane), he has relied increasingly on buying in players – Rio Ferdinand, Cristiano Ronaldo, Wayne Rooney, and Louis Saha. Yet whether these talented players can be meshed into an outstanding team remains to be seen. It is important not to underestimate the challenges and risks of replacing Ferguson. After almost 20 years in the job, his impact has been far reaching: scouting, coaching, training, medical and psychological support, and players' daily lives have all been oriented around the system he has built.
 - c) Are there fundamental changes in the game occurring that Ferguson has failed to pick up on? If Ferguson represents a bygone era in coaching, then maybe it is best to replace Ferguson with someone who reflects current thinking in team development. As yet there is little evidence of Ferguson being out of touch. His abrasive style may be old-school, but in internationalizing the team and setting standards of excellence and commitment, he continues to be effective.