

IMPACT OF MERGERS AND ACQUISITIONS ON SPORT PERFORMANCE OF FOOTBALL CLUBS IN THE HIGHEST PROFESSIONAL LEAGUE IN POLAND

SZCZEPAN KOŚCIÓŁEK,¹ KAROLINA NESSEL²

¹Cracow University of Economics
e-mail: szczepan.kosciolek@uj.edu.pl

²Jagiellonian University in Kraków
e-mail: karolina.nessel@uj.edu.pl

RECEIVED 25 March 2015
ACCEPTED 1 June 2015

JEL
CLASSIFICATION G34, L83, Z21

KEYWORDS Ekstraklasa, football, mergers and acquisitions, sports club, sport performance

ABSTRACT Mergers and acquisitions (M & As) in professional sports evoke strong emotions. Whereas for some economists (and club owners) they are just business operations aimed to improve sport and financial performance of organizations, the supporters often reject this proposition on the grounds of identity and symbol issues. Given the lack of studies devoted to consolidation operations in Polish professional sports, the paper undertakes the analysis of M & As in the highest professional football league in Poland (Ekstraklasa) since 1989 with the aim to verify their impact on sport performance of the football clubs involved. The results of this multiple case study indicate that the main motivations for M & As in the sports club context are the same as in other industries (search for specific assets, strategic considerations, profit and loss calculations). In addition, the success rate also resembles the one in other sectors: only in one case (out of four studied) the merger has led to a clear and lasting improvement of sport performance (although not an immediate one). The distinctive features of the successful merger of Lech Poznań with Amica Wronki are: a well conducted preparation and negotiation process, and the same league division of the merging clubs. On the other hand, common factors of organizational and hence sporting failure of the other 3 cases were: lack of long-term strategy, the owners' financial difficulties, and conflicts with the top league governing body.

Introduction

The issue of mergers and acquisitions (M & As) in football is quite a controversial one. While some managers argue that it is just a business operation allowing the club to achieve a better financial and sport performance, for many it is not only contrary to the core idea of sports, but also unproductive and prone to failures. The economic literature is not very helpful in settling the issue, as it rarely studies the question in the sports context, and even

less with sport performance as the main criterion. There are no studies concerning this phenomenon in Polish professional football.

Hence, the aim of the paper is to analyze the effect of M & As in the top division of the Polish professional football league (currently called "T-Mobile Ekstraklasa" or just "Ekstraklasa") since 1989 on the sport performance of the clubs concerned. It is assumed that in spite of the growing commercialization in football and the importance of financial results, the main goal of a football club is still its sport performance (sport and financial results being interdependent anyway). The sport performance is measured by the final rank in a given league season. As there have been only 4 cases of the M & As in question, the multiple case study method is chosen (see Bengtsson and Larsson (2012) for advantages of this method in analysis of M & As). The analysis is based on secondary data drawn from archival press articles and football league rankings (95/96-13/14) available in sporting portals.

The next part of the paper briefly presents the idea of M & As in the sports club context. It is followed by a presentation of 4 cases of such operations in Ekstraklasa. Then, an analysis of a change in the sport performance of the clubs involved in these operations is conducted. The final section concludes and presents possible future research directions.

Mergers and acquisitions in the sports club context

Mergers and acquisitions lead to the creation of one organization out of two hitherto independent entities. In general, mergers imply consolidation of two entities into a new organization mainly by negotiations, while acquisitions are done when one company takes over and incorporates a target one. In the latter case, the dominant entity may become the owner of the other one either by negotiations (a friendly takeover) or by acquisition of a controlling interest on the open market contrary to the will of the target company's board (a hostile takeover). As the big Polish football clubs are joint-stock companies, but are not publicly listed, a hostile takeover in this case is quite unlikely. The eventual consolidations of Polish football clubs are regulated by the Commercial Companies Code. The Code allows for consolidation either by transferring the assets into one of the companies or by creating a new entity merging the assets of the two companies. Therefore, even if in the literature there are many other criteria for distinction between mergers and acquisitions, the main criterion in the paper is the final organizational form of the new entity.

The decision to merge or to take over another company answers a natural drive for a company's growth. The growth may be assured by internal resources but is often hindered by various barriers, i.e. high investments outlays or contacts, licenses and permits needed to enter a new market. In that situation, an external growth by a merger or an acquisition might be a solution. There are at least four factors supporting the external growth strategy (Frąckowiak, 2009):

- sectorial issues (e.g. access process to a new market, need for specific assets),
- strategic choices (e.g. speed of the process, decrease in competitive pressures in the market),
- profit and loss calculations (e.g. underpriced assets, hope for synergies enhancing efficiency),
- subjective perceptions by the top management of the external growth efficiency.

To compete in the primary professional league in Poland football clubs have to obtain a license from Ekstraklasa SA. The licensing process demands fulfilling many formal, financial and infrastructural criteria, and failing to satisfy one of them means a withdrawal of the license and an impossibility to continue competing in the Ekstraklasa in the same season (PZPN, 2014). The licensing criteria of Ekstraklasa combined with the promotion and relegation process in the multilevel Polish national football league system clearly push towards M & As motivated by market entry and strategic considerations.

Despite the immense popularity of M & As in the world economy, their efficiency is controversial. Although *ex ante* M & As generally create an added value for companies involved (as measured by changes in their stock prices), the value of the final entity *ex post* is often smaller than the total of the values of the two businesses before the operation. In this situation, the main beneficiaries are often only the sellers profiting from a one-off premium paid for their business. This altogether disappointing empirical result has been often found in studies across many sectors, in different periods, as individual case analyses and panel studies, using various measures of economic performance (i.a. Caves, 1987; Andrade et al., 2001; Cartwright and Schoenberg, 2006; Halebian, et al., 2009; Rahman and Lambkin, 2015). For example, among M & As analyzed by KPMG in the years 1997–2009, the value for shareholders increased only in 28% of cases, decreased in 42%, and was neutral in 30% of cases (KPMG, 2011). The main reasons for the high rate of fiasco seem to be i.a. issues in human capital, organizational culture, motivations for the operations, organization of preparation, negotiation and consolidation processes, and change management (Cullinan et al., 2013). On the bright side, Hosono, Takizawa and Tsuru (2009) have found that the chance for M & As to bring about an improvement in the business efficiency increases with time elapsed (you should wait 3 or more years), whereas Conyon, Girma, Thompson and Wright (2000) advocate that the chance grows when both entities operate in the same industry division.

In the case of M & As in sports some new difficulties may arise. Even when a consolidation is the only option for a survival of a club, team members and club supporters often consider it a necessary evil. Frequently the problem concerns the issue of club identity and symbols. There might be lots of strong emotions about a club's new name, colors, and logo complicating the negotiation process. Especially if one takes into account that the decision process in many sport clubs is quite complicated due to multiple stakeholders. Even if the management opts for a consolidation, the club members may refuse it and block the operation (Boessenkool, 2006). Although Boessenkool's observations concern amateur sport clubs (where a veto by team members is formally possible), this kind of blockade in professional clubs may be imposed by club fans. In Poland, football clubs' supporters have successfully blocked proposed mergers of Groclin Dyskobolia with Śląsk Wrocław in 2008, and GKS Katowice with Polonia Warszawa in 2012.

Cases of mergers and acquisitions in the top division of the Polish professional football league since 1989

Since 1989 in Ekstraklasa¹ there have been 2 cases of mergers and also 2 cases of acquisitions (Figure 1).

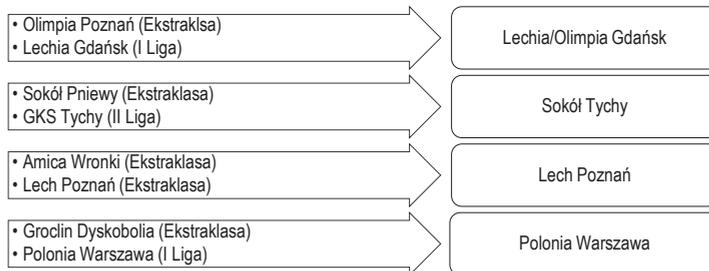


Figure 1. Mergers and acquisitions in the highest professional football league in Poland, 1989–2014

Source: own elaboration.

Olimpia Poznań merges with Lechia Gdańsk

The first consolidation in the Polish football involving at least one club from the highest professional league took place in the season 1995/1996. It concerned Olimpia Poznań and Lechia Gdańsk. The operation was prompted by financial difficulties of Olimpia club (in the first level league). The distressing situation was due not only to unprofessional management but also to low match attendance (the club was losing in terms of supporters to two bigger football clubs in Poznań) (Kordek, 2005). Meanwhile, Lechia Gdańsk in its second level competition achieved poor results and was doomed to relegation.

The operation is considered a merger as both partners brought in substantial assets: a place in the first level league (Olimpia) and financial capital (Lechia). Players were integrated into one new team, the headquarters was located in Gdańsk. Important issues of symbols, colors, and name were settled by a wise compromise.

Nevertheless, the merger did not survive one year. In its first season (1995/1996) the new club ranked 16th in the table (implying relegation to the lower level league). One of the reasons of the sport failure in this case was the resistance of the Polish Football Association (governing body for the football league system in Poland) to accept the merger (the situation led to misunderstandings concerning the “home stadium” of the club and two walkovers in consequence). Subsequently, the merger was dissolved, and in 1998 Lechia Gdańsk merged with Polonia Gdańsk (then a third division club) (Kordek, 2005).

¹ In Poland the national football league system consists of 10 levels. Till the 2008/2009 season the highest level (division) was called I Liga (followed by II Liga, III Liga, etc.). In 2008 the highest level was renamed Ekstraklasa, while the second level is now called I Liga, etc. For the sake of clarity, in the paper the term of Ekstraklasa is used to indicate the first division even before 2008/2009 season.

GKS Tychy takes over Sokół Pniewy

In the same 1995/1996 season another football club in the highest division underwent transformation. In this case, too, the main motive for Sokół Pniewy (competing in the first division) was its financial distress (PP, 1995). The club managers have been searching for a new investor for some time, tempting with the place in the first league. The best bid came from the businessman Piotr Buller, the owner of the GKS-Tychy (playing in the third division).

Even if in the new club the name “Sokół” was retained, in fact the club from Pniewy was taken over by GKS-Tychy and Piotr Buller became the only owner of the new club Sokół Tychy. Moreover, the new club was installed in Tychy. The first year budget of the new identity was quite substantial (Imielski, 1996).

Clearly, in this case the new owner was motivated by strategic reasons – the operation allowed a very fast access to the top division. In the first season the new club ranked 9th in the league (an improvement of one position comparing to the Sokół Pniewy’s result). Yet, when Piotr Buller stopped financing the club in its second year (due to his other business problems), the club did not manage to complete the season (Czado, 1997).

Lech Poznań mergers with Amica Wronki

The next merger in the Polish top division came almost ten years later. In the 2006/2007 season Lech Poznań and Amica Wronki integrated under the Lech Poznań trademark. In fact, both clubs originated from the same voivodeship and both played in Ekstraklasa. Even though in the earlier season both clubs ranked quite well (6th and 4th position respectively), in 2006 both faced serious problems. While Lech Poznań struggled to assure its financial solvency running a debt of PLN 15 million, Amica Wronki (despite relatively important sport successes) had never managed to build a significant fan base, with an average attendance of only 2,000 people per match (compared to 8,000 in the case of Lech Poznań) (Przegląd Sportowy, 2006; Transfermarkt.de, 9.03.2015).

The final contract between the clubs followed a long and careful negotiation process. In conclusion it has been decided (Guzowski, 2006):

- the new club is to be called KKS Lech Poznań, taking over all the name rights and trademarks of Lech Poznań,
- matches are to be played in the football stadium in Poznań,
- the team is to be made of best players of both clubs,
- Amica Wronki is to become a satellite club for Lech Poznań starting competition in the 4th division,
- the company Amica SA is to be the main investor in the new entity,
- the new entity is to use the Ekstraklasa license of Amica Wronki.

In fact, the deal has transferred all assets of value from Lech Poznań to the debt-free Amica SA. Subsequently, the debt-laden Lech Poznań was liquidated (and despite years long legal proceedings Lech’s creditors have not been paid off – Pawlak and Smoleń, 2011).

From an economic perspective, the clear compromise of both sides and significant assets brought in by two clubs (stadium, tradition, mark, and fans by Lech Poznań, financial capital and training base by Amica Wronki) altogether allow this operation to be classified as a merger.

The operation has on average improved the sport performance of the new club – it has been a real progress for Lech Poznań and a slight one for Amica Wronki (Figure 2). Moreover, in the next 8 years the new Lech Poznań became the Ekstraklasa champion once (in 2010) and Ekstraklasa vice-champion twice (2013, 2014). Nevertheless,

when scrutinizing its sport performance it can be seen that the real improvement did not come immediately but only after a period of adaptation.

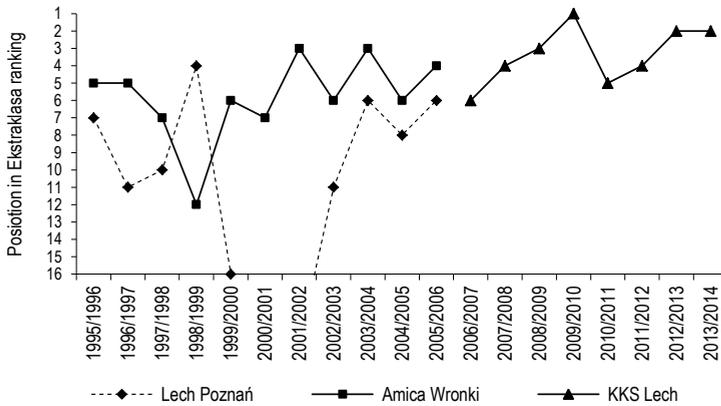


Figure 2. Sport performance (measured by the final rank in each Ekstraklasa season) achieved by Lech Poznań and Amica Wronki versus KKS Lech Poznań, 1996–2014

Source: own elaboration based on Ekstraklasa data.

Polonia Warszawa takes over Groclin Dyskobolia

In 2004–2008 Groclin Dyskobolia was managing quite well in Ekstraklasa (Figure 3). This was due i.a. to one of the highest budgets in the top division assured by its owner, Zbigniew Drzymala. Yet, the businessman was convinced that to build a long-run financial sustainability a first division club needs a broad fan base (PAP 2012), which was impossible to achieve in Grodzisk (a town of ca. 15,000 inhabitants). Therefore, the club was searching to merge with a stronger one in terms of match attendance and media coverage. Finally, after the failure of potential mergers with Pogoń Szczecin and Śląsk Wrocław, the club was bought by the owner of Polonia Warszawa (a second division club).

At that time, Polonia itself was in serious financial difficulties. Still, for its owner, Józef Wojciechowski, the acquisition of Groclin Dyskobolia was a good deal. First of all, he paid for the club from Grodzisk PLN 20 million, significantly less than the investment of the previous owner in the development of the club (PLN 50 million) (Kcz/Pra, 2008; Ab and PAP, 2008). Moreover, this operation let him go the debt-laden Polonia Warszawa and get rid of creditors, while keeping valuable resources of Polonia. In the takeover, Józef Wojciechowski acquired quasi-totality of Groclin Dyskobolia's assets, notably the Ekstraklasa license, sport facilities in Grodzisk, and almost all players. The headquarters was transferred to Warszawa. On the other hand, the remaining of the debt-laden Polonia was left over in financial distress in the fourth division (Kwiatkowski, 2008), only to be liquidated in 2009. Clearly, besides the strategic motives of a fast entry to a new market (of Ekstraklasa) this operation was also dictated by profit and loss considerations.

The new club was competing in Ekstraklasa during the next five seasons. Nevertheless, only the first season after the takeover may be considered good in terms of sport performance and Ekstraklasa ranking (Figure 3). Thanks to the 4th rank in Ekstraklasa Polonia Warszawa gained even the right to compete in UEFA Europa League. In this competition, the club attained the third round losing against Dutch NAC Breda. This was the only season when Polonia Warszawa approached the sport performance level of Groclin Dyskobolia before the takeover. The following years were marked by instability (i.e. frequent changes of coaches, financial conditions, and the owner's managerial decisions). Finally, in 2012, Polonia Warszawa was bought by Ireneusz Król, the owner of GKS-Katowice (with the idea of a merger, yet ultimately both clubs remained independent) (Szczepłęk and STS 2012; Szczepłęk, 2013).

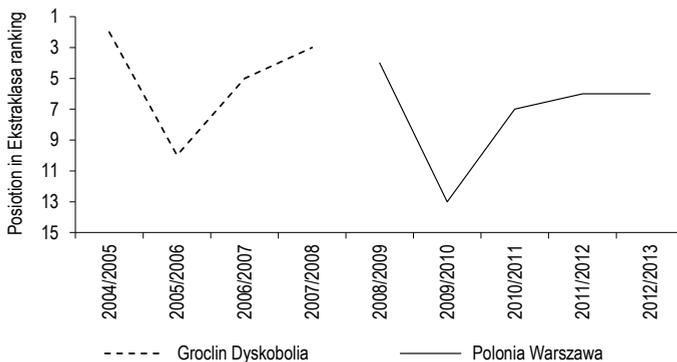


Figure 3. Sport performance (measured by the final rank in Ekstraklasa season) achieved by Groclin Dyskobolia versus Polonia Warszawa, 2004–2013

Source: own elaboration based on Ekstraklasa data.

Sport performance of the clubs involved in mergers and acquisitions in the top division of the Polish professional football league

Whereas the result of M & As (and also other managerial decisions) in many sectors is simply measured by their financial effects, in the case of sport clubs this approach is not evident. It is true that for some researchers (and club owners) a club is just a business entity operating to maximize the owners' profit. However, the alternative model of organizational behavior of a sport club is based on its competition with other clubs in the same division with the goal of winning a highest number of matches (Smith and Stewart, 2008). The latter model implies that the sport performance is the most important criterion for management efficiency of sport clubs. Evidently, the sporting and financial aspects are closely interlinked, if only for the share in broadcasting rights rising with a rank in Ekstraklasa.

Concentrating only on sport performance, the effects of M & As in Ekstraklasa look disappointing, with the notable exception of Lech Poznań (Figure 4).

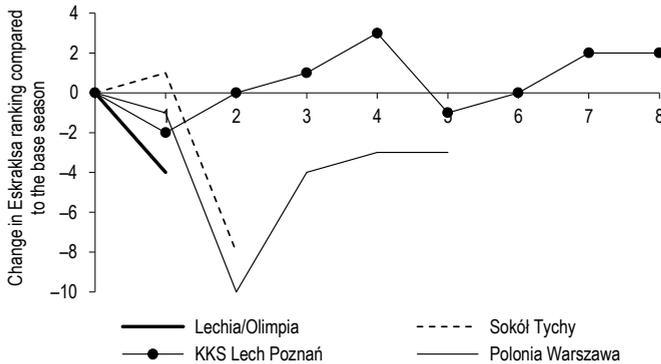


Figure 4. Evolution in sport performance of football clubs after a merger or acquisition (measured by a change in the final rank in Ekstraklasa season compared to the performance of the club holding Ekstraklasa license in the season before the merger or acquisition)

Source: own elaboration based on Ekstraklasa data.

The only club to improve its sports performance (compared to the situation of the license holding entity before the acquisition) already in the first season after the operation was Sokół Tychy. However, for this club the first season was also the last one completed in the division. Lechia/Olimpia also competed in the Ekstraklasa only during one season, while having worsened dramatically its sport results (in absolute level and compared to Olimpia Poznań before the merger) the club was relegated to the lower division the following year. A more lasting presence in Ekstraklasa was registered by Polonia Warszawa (having acquired the license-holding Groclin Dyskobolia). Still, in this case the results worsened during two following years and improved only later, and even then Polonia Warszawa has never regained the sport level of Groclin Dyskobolia. In all these cases (3 out of 4 studied) the consolidation operations have not really improved the sport results of the clubs concerned. This observation corresponds well with the generally rather poor results of M & As in other sectors of economic activity and measured by financial value added for shareholders. The poor sports performance of the football clubs, besides usual sports odds, resulted from the lack of long-term strategy, the owners' financial problems, and conflicts with the top division governing body (the last factor was valid only in the 1990s).

Interestingly, the only success story among the 4 cases is the merger of Lech Poznań with Amica Wronki, where both clubs were already competing in the same, highest division (Figure 1). If only the small sample of the cases studied allowed a generalization, this could indicate that the idea of the same league division in sports corresponds to the concept of the same industry division found by Conyon, Girma, Thompson and Wright (2000) to increase the M & As chances for success. Yet, the same division is unlikely to be the only reason for Poznań Lech success. The striking difference, when comparing to other cases, is the extensiveness and quality of the preparation process leading to the merger, in lines with some of the ideas of Cullinan, Rovit and Tymms (2003). However, even in this positive example, the improvement in the sport performance came only later, after an adaptation period (confirming ideas of Hozono, Takizawa and Tsuru (2009)).

Conclusions

In the years 1989–2014 there have been four operations of mergers and acquisitions in Polish football top division. All these cases represent well the drive of organizations for external growth given internal barriers. The owners and managers of the clubs seem to have been motivated by strategic considerations (faster growth, change in competitive configuration), sectorial characteristics (license blocking access to the Ekstraklasa market, need for a larger fan base), profit and loss calculations (underpriced assets, getting rid of financial debt). In this aspect, the sport clubs do not look different from businesses in other economic sectors. Similarly, in terms of success rate (measured by sport performance) and adaptation period, the four cases seem to confirm findings in research on M & As in other industries.

The factors having contributed to the organizational and hence sporting failure of the clubs considered were: lack of long-term strategy, owners' financial difficulties, and conflicts with the top division governing body. On the other hand, the most successful case of Lech Poznań and Amica Wronki was carefully prepared, involved clubs in the same division, and improved the sport performance (but after a period of adaptation).

Given the small number of cases in this paper and the lack of other papers dealing with M & As in Polish professional sports, the study should be treated as an exploratory one. Future research should enlarge the number of cases (covering other divisions in Polish professional football league, other team sports). It could also benefit from a cross-country analysis. An enlarged sample would allow for a better understanding of variables influencing the success probability of mergers and acquisitions in professional team sports.

References

- Ab & PAP (2008). Fuzja Polonii i Groclinu. Wprost. Available at: www.wprost.pl/ar/133928/Fuzja-Polonii-i-Groclinu (accessed on 9.03.2015).
- Andrade, G., Mitchell, M., & Stafford, E. (2001). New evidence and perspectives on mergers. *Journal of Economic Perspectives*, 15 (2): 103–120.
- Bengtsson, L. & Larsson, R. (2012). Researching Mergers & Acquisitions with the Case Study Method: Idiographic Understanding of Longitudinal Integration Processes. CSIR Electronic Working Paper Series Paper. 4: 1–21.
- Boessenkool, J. (2006). "It is a Proces Filled with a Struggles": Mergers of Sport Clubs. In: A. Knoppers, A. Anthonisses, Making sense of diversity in organizing sport. Oxford: Meyer & Meyer Sport. Ch. 4.
- Cartwright, S. & Schoenberg, R. (2006). 30 years of mergers and acquisitions research: recent advances and future opportunities. *British Journal of Management*, 17 (S1): 1–5.
- Caves, R.E. (1987). Effects of Mergers and Acquisitions on the Economy: An Industrial Organization Perspective. In: L. Browne, E. Rosengren, The Merger Boom. Proceedings of a Conference Held in October 1987. Conference Series Proceedings, 31: 149–168.
- Canyon, M.J., Girma, S., Thompson, S. & Wright, P.W. (2000). The impact of mergers and acquisitions on profitability and employee remuneration in UK manufacturing industry. *Discussion Papers in Economics*, 99 (24): 2–23.
- Cullinan, G., Rovit, S. & Tymms, A. (2003). Organising for deal success, *European Business Journal*, 25 (4): 181–184.
- Czado, P. (1997). Sokół zakończył lot /TYCHY. Klub wycofał się z rozgrywek. *Gazeta Wyborcza Katowice*, 157: 32.
- Frąckowiak, W. (2009). Fuzje i przejęcia. Warszawa: Polskie Wydawnictwo Naukowe PWN.
- Guzowski, K. (2006). Fuzja podpisana. *Rzeczpospolita*, 3834: X1.
- Haleblian, J., Devers, C.E., McNamara, G., Carpenter, M.A. & Davison, R.B. (2009). Taking stock of what we know about mergers and acquisitions: A review and research agenda. *Journal of Management*, 35 (3): 469–502.
- Imielski, R. (1996). Wach się zgodził. *Gazeta Wyborcza Katowice*, 19: 5.
- Kcz/Pra (2008). Polonia już prawie z Groclinem TVN24. Available at: <http://sport.tvn24.pl/archiwum,133/polonia-juz-prawie-z-groclinem,64253.html> (accessed on 9.03.2015).

- Kordek, M. (2005). Lechia – Olimpia: 10 lat po fuzji. Tygodnik lechia.gda.pl. 12 July. Available at: <http://lechia.gda.pl/artukul/11176> (accessed on 22.03.2015).
- KPMG (2011). A new dawn: good deals in challenging times. KPMG Global Survey 2011. Available at: www.kpmg.com/CZ/cs/IssuesAndInsights/ArticlesPublications/Press-releases/Documents/KPMG_MA-New-Dawn-2011.pdf (accessed on 22.03.2015).
- Kwiatkowski, O. (2008). Ciemna strona fuzji, *Gazeta Stołeczna*, 294: 24.
- Pawlak, Z. & Smoleń, A. (2011). Zachowania obronne spółek kapitałowych w sporcie kwalifikowanym w sytuacjach kryzysowych – analiza wybranych przypadków. *Master of Business Administration*, 110 (3): s. 63–74.
- PAP (2013). Nie żałuję, że sprzedałem Groclin – rozmowa ze Zbigniewem Drzymalą. *Sportowe Fakty*. 10 June. Available at: www.sportowefakty.pl/pilka-nozna/363357/drzymala-nie-zaluje-ze-sprzedalem-groclin-rozmowa-ze-zbigniewem-drzymala (accessed on 22.03.2015).
- PP (1995). Zawieszona fuzja. Decyzja o połączeniu GKS z Sokołem Pniewy odroczone. *Gazeta Wyborcza Katowice*, 149: 1.
- Przegląd Sportowy (2006). Bitwa o jedną licencję Wirtualna Polska. Available at: <http://media.wp.pl/kat,1022939,wid,8141416,wiadomosc.html> (accessed on 9.03.2015).
- PZPN (2014). Podręcznik licencyjny dla klubów Ekstraklasy na sezon 2014/2015. Available at: www.pzpn.pl/public/files/polecane/PODRECZNIK.pdf (accessed on 22.03.2015).
- Rahman, M. & Lambkin, M. (2015). Creating or destroying value through mergers and acquisitions: A marketing perspective. *Industrial Marketing Management*. Available at: www.sciencedirect.com/science/article/pii/S0019850115000206 (accessed on 22.03.2015).
- Smith, A. & Stewart, B. (2008). *Sports Management: A Guide to Professional Practice*. Crows Nest NSW: Allen&Unwin Pty Ltd.
- Szczepek, S. & STS (2012). Polonia wciąż Warszawa. *Rzeczpospolita*, 171: A-1.
- Szczepek, S. (2013). Polonia: Anatomia upadku. *Rzeczpospolita*, 125: A-15.
- Transfermarkt.de (2015). Rozgrywki: Ekstraklasa. Transfermarkt.de. Available at: www.transfermarkt.pl/ekstraklasa/startseite/wettbewerb/PL (accessed on 9.03.2015).

Cite this article as: Kościółek, S., Nessel, K. (2015). Impact of mergers and acquisitions on sport performance of football clubs in the highest professional league in Poland. *Szczecin University Scientific Journal*, No. 872. *Service Management*, 15 (1): 77–86.