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Analysis of Manchester United Club's Development from the Perspective of New Institutional Economics

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Abstract

This paper, from the perspective of new institutional economics, provides an in-depth analysis of the development trajectory and challenges faced by Manchester United Football Club. By employing multiple theoretical frameworks, including transaction cost theory, contract theory, property rights theory, and enterprise institutional theory, the study examines issues such as equity transactions, managerial contract management, broadcast revenue distribution, and club governance structure at Manchester United. The research reveals that the high service fees incurred during equity transactions reflect ambiguities in the definition of property rights, while the frequent turnover of head coaches highlights the limitations of incomplete contract mechanisms. Additionally, the distribution of broadcast revenue in the English Premier League is closely tied to Manchester United's league standings, underscoring the effectiveness of incentive mechanisms. The paper also points out that while the clarification of property rights at the institutional level has provided significant support for the club's market-oriented operations, issues such as property rights confusion and the unreasonable allocation of transaction costs persist in practice. Finally, the paper proposes future research directions, recommending a stronger integration of theory and practice, deeper quantitative analysis, an expansion of case study scope, and a focus on the dynamic processes of institutional change. These suggestions aim to offer more robust theoretical support and practical guidance for the development of enterprises in the sports industry.

Keywords

New Institutional Economics; Manchester United Club; Transaction Costs; Contract Theory; Property Rights Theory.

1. Introduction

With the rapid development of the global sports industry, football, as the world's most popular sport, has seen its commercial value increasingly highlighted. The English Premier League (EPL), one of the most influential football leagues in Europe and globally, has attracted the attention of countless fans and investors. As a traditional powerhouse in the EPL, Manchester United Football Club has become one of the most valuable football clubs in the world, thanks to its illustrious history and global brand image. However, behind its success, Manchester United also faces numerous challenges, particularly in areas such as equity transactions, managerial contract management, broadcast revenue distribution, and club governance structure.

New Institutional Economics, a burgeoning branch of economics in recent years, focuses on studying institutions and their impact on economic behavior through economic methodologies. Its theoretical framework includes transaction cost theory, contract theory, property rights theory, and enterprise institutional theory, among others. These theories provide powerful tools for analyzing the development of Manchester United. This paper aims to delve into the issues faced by Manchester United in equity transactions, managerial contract management,

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broadcast revenue distribution, and club governance structure from the perspective of New Institutional Economics, and propose corresponding solutions and future research directions.

Firstly, this paper will employ transaction cost theory to analyze the high service fees incurred by Manchester United during equity transactions, exploring the issue of ambiguous property rights definition. Secondly, using contract theory, the paper will examine the incomplete contract mechanisms between Manchester United and its head coaches, revealing the underlying reasons for the frequent turnover of managers. Next, based on property rights theory, the paper will investigate the correlation between Manchester United's broadcast revenue distribution in the EPL and its league standings, highlighting the effectiveness of incentive mechanisms. Finally, by integrating enterprise institutional theory, the paper will analyze how the clarification of property rights at the institutional level supports Manchester United's market-oriented operations, while also pointing out the persistent issues of property rights confusion and the unreasonable allocation of transaction costs in practice.

Through the above analysis, this paper not only provides theoretical support for the development of Manchester United but also offers valuable insights for the growth of other enterprises in the sports industry. Future research should strengthen the integration of theory and practice, deepen quantitative analysis, expand the scope of case studies, and focus on the dynamic processes of institutional change, thereby providing more robust theoretical support and practical guidance for the development of enterprises in the sports industry.

2. Basic Introduction to Manchester United Football Club

Manchester United Football Club is one of the most renowned football clubs in England, established in 1878 under the name Newton Heath and renamed Manchester United in 1902. The club is globally celebrated for its illustrious history and international brand image, standing as one of the most valuable football clubs in the world. Manchester United's success is reflected not only in its exceptional on-field achievements but also in its effective brand management and commercialization strategies. Since its first European Cup victory in 1968, under the leadership of Sir Alex Ferguson, the club has secured numerous prestigious honors, including the English Premier League, the FA Cup, and the UEFA Champions League.

3. Analysis of Manchester United Club's Development from the Perspective of Transaction Costs

Transaction costs serve as the foundation in New Institutional Economics for explaining various institutional phenomena and developing related theories. In 1937, Coase, in his seminal work *The Nature of the Firm*, did not explicitly define transaction costs or their conceptual framework, but he was the first to articulate the idea of transaction costs, proposing that "using the price mechanism comes at a cost." On November 22, 2022, Manchester United Football Club announced that the Glazer family confirmed their openness to selling the club. The process of seeking potential buyers for the club's shares constitutes a transaction, which inherently involves significant information search costs. These costs include not only identifying suitable buyers but also conducting due diligence on the financial status, business models, and managerial capabilities of potential buyers.

On December 24, 2023, Sir Jim Ratcliffe acquired a 25% stake in Manchester United. During the acquisition process, the club paid a service fee of £35 million to the investment bank Raine Group to assist in identifying suitable buyers. Raine Group, a globally renowned investment bank with extensive transaction experience, possesses a deep understanding of Manchester United's development and market position. A substantial portion of the £35 million fee was allocated to cover Raine Group's efforts in information search and evaluation. Negotiations with

Sir Jim Ratcliffe and his team to agree on terms, pricing, and other details of the share sale also required significant time and resources, including expenses for legal consultation and financial advisory services.

Sir Jim Ratcliffe, a lifelong fan of Manchester United, pursued this acquisition not only as a strategic investment but also out of his personal affection for the club and the sport of football. As part of the deal, Ratcliffe committed an additional $300 million to fund infrastructure projects related to Manchester United's stadium. From this perspective, although Manchester United incurred high transaction costs, the professional services provided by Raine Group helped mitigate risks associated with information asymmetry. By leveraging insights into the club's operations, market position, and financial status, Raine Group was able to more accurately assess the club's value and identify reliable buyers, thereby reducing investment risks stemming from insufficient information. This approach minimized uncertainties related to information search and negotiation costs. Furthermore, Ratcliffe's investment not only brought financial resources but also his business management expertise and networks, which are crucial for Manchester United's long-term development.

4. Analysis of Manchester United Club's Development from the Perspective of Contract Theory

The contract between Manchester United Football Club and its head coach is a classic example of an incomplete contract. One of the primary reasons for such incompleteness is the asymmetry of information. There exists an information asymmetry between the club and the coach. Prior to hiring a coach, the club cannot fully assess the coach's managerial capabilities and the compatibility with the team's players. Misjudgments in this assessment can lead to poor hiring decisions, thereby increasing the frequency and cost of coach replacements.

A complete contract should anticipate all possible scenarios and stipulate corresponding terms. However, football match outcomes are fraught with uncertainty, and the performance of a head coach is difficult to quantify, making it challenging to precisely define goals and penalties in the contract. Consequently, the contract cannot fully regulate the behavior of both parties, nor can it entirely prevent termination due to poor coaching performance. Football matches are influenced by numerous factors, including the players' form on the day, injuries, the tactical arrangements of the opponents, and the referees' decisions. Even an excellent coach cannot guarantee ideal results in every match. Therefore, it becomes extremely difficult to precisely define goals and penalties in the contract. For instance, using league position as a metric for evaluating a coach's performance has its limitations. The strength and performance of other teams in the league also affect Manchester United's position. Even if the coach adopts the correct tactics and management strategies, the team might fail to achieve the expected position due to unforeseen factors. Similarly, using match outcomes as a performance metric is not comprehensive, as some results may be influenced by random factors and do not fully reflect the coach's true managerial abilities.

The contract between Manchester United and its head coach includes a clause for termination fees, meaning that if either party wishes to terminate the contract before its expiry, they must pay the other party a fee. The termination fee clause aims to reduce transaction costs arising from incomplete contracts by pre-setting termination costs. For example, José Mourinho's contract (2016-2018) included a £15 million termination fee, designed based on his market reputation and potential performance elasticity. However, such rigid clauses cannot dynamically adapt to the coach's actual contributions. For instance, after Mourinho led the team to win the Europa League, the termination fee was not adjusted according to the improved performance, leading to a breakdown in subsequent contract negotiations. The financial status of Premier League clubs includes multiple indicators such as assets, liabilities, net assets, total

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revenue, cash flow, number of employees, and average revenue per employee. Changes in these indicators directly affect the club's financial health. In this context of frequent coach changes, the payment of multiple termination fees can worsen the club's financial situation.

During the Ferguson era, Sir Alex Ferguson achieved remarkable success by meticulously selecting talented players, dedicating efforts to nurture and develop their potential, and employing relentless motivational strategies. However, after his retirement, this model was not fully inherited and developed. New coaches face the daunting task of quickly adapting to and integrating into the team's unique culture and complex tactical system, which undoubtedly poses significant challenges to the team's long-term stability and development. As a result, most of the subsequent head coaches hired by Manchester United have delivered mediocre performances, and the high termination fees paid did not yield commensurate results.

The termination fee clause attempts to mitigate some of the risks associated with incomplete contracts but cannot fully resolve the issue. The frequent changes of coaches post-Ferguson era highlight the limitations of this incomplete contract mechanism. It indicates that while the termination fee clause can to some extent constrain the behavior of both parties, it still cannot entirely prevent terminations in the face of the complex and ever-changing football environment and internal team issues. This also suggests that there is room for improvement in the club's coach selection, contract design, and team management. The rapid evolution of football tactics, exemplified by the widespread adoption of high-pressing strategies, contrasts sharply with the rigidity of contract terms, which lack a dynamic evaluation mechanism for the coach's evolving capabilities. Erik ten Hag's contract in 2022 emphasized a possession-based system, but its tactical adaptability was evidently insufficient in the high-intensity environment of the Premier League, further exposing the static flaws in contract design. These issues collectively underscore the urgent need for improvements in the current football management mechanisms. Clubs need to place greater emphasis on comprehensive evaluation and selection of coaches, adopt more flexible and refined contract designs, and strengthen the coordination and management of internal team relationships to reduce the risks and costs associated with incomplete contracts.

5. Analysis of Manchester United Club's Development from the Perspective of Property Rights Theory

Against the backdrop of the booming global sports industry, football, as the world's most popular sport, has seen its commercial value increasingly highlighted. The English Premier League (EPL), as one of the most influential football leagues in Europe and globally, derives a significant portion of its revenue from broadcasting rights, which play a crucial role in the operation and development of its clubs. Manchester United, a traditional powerhouse in the Premier League, has always held a pivotal position within the league. The income distribution system and ranking bonus mechanism in professional football leagues are essential components of league management, directly impacting the economic interests, competitive level, and commercial value of the clubs. Manchester United's broadcasting rights are closely tied to the Premier League's revenue distribution model.

In the Premier League, 50% of domestic broadcasting revenue is equally distributed among the 20 clubs, with each club receiving an equal share. The remaining 50% is allocated based on the final league standings and the number of matches each team has broadcast nationally. Specifically, 25% of this revenue is distributed according to the final league rankings, with higher-ranked clubs receiving larger bonuses. The remaining 25% is allocated based on the number of times a team's matches are broadcast live nationally, with more broadcasts leading to higher revenue for the club. This distribution mechanism not only incentivizes teams to strive for higher league positions but also takes into account the market influence and audience

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appeal of each team. Overseas broadcasting revenue is equally distributed among all 20 Premier League clubs.

Manchester United's broadcasting revenue in 2024 saw a slight increase compared to 2023. Its revenue from European competitions effectively offset the decline in domestic broadcasting revenue. However, the decline in domestic broadcasting revenue remains a significant issue for Manchester United. After failing to qualify for the UEFA Champions League in the new season, Manchester United's broadcasting revenue will primarily rely on domestic competitions. In the 2023/24 season, Manchester United finished eighth, compared to third in the 2022/23 season. The decline in Manchester United's revenue for the 2023/24 season reflects the correlation between the club's performance and its revenue under the Premier League's new broadcasting rights distribution mechanism.

In new institutional economics, incentives are a primary function of property rights. Effective incentives ensure that the costs incurred are matched by the benefits achieved. Only when costs and benefits are balanced can the enthusiasm of economic agents be fully mobilized, thereby promoting the efficient allocation of resources and the effective operation of economic activities. The equal distribution of overseas broadcasting revenue and a portion of domestic broadcasting revenue aims to ensure that all clubs in the league maintain basic competitiveness and avoid severe polarization. The ranking bonus mechanism strengthens the incentive to compete for higher positions, as higher rankings result in larger bonuses. This mechanism encourages clubs to strive for better performance in the league rather than relying solely on substantial broadcasting revenue to sustain operations. The case of Manchester United's revenue decline illustrates this point: a drop in ranking directly led to reduced revenue, demonstrating the effectiveness of the incentive mechanism.

The management of Manchester United needs to re-evaluate its operational strategies and competitive management models. They must place greater emphasis on team building and development, increase investment in player acquisitions, training facility improvements, and coaching staff optimization, and study the strategies of higher-ranked competitors to enhance the team's strength and competitiveness, aiming for better rankings and increased revenue in future seasons.

6. Analysis of Manchester United Club's Development from the Perspective of Enterprise Institutional Theory

From the perspective of new institutional economics, the definition of property rights and the minimization of transaction costs are emphasized. Manchester United Football Club, as a professional football club, has seen the clarification of its property rights as a crucial factor in its success. For instance, the Glazer family's leveraged buyout (LBO) of Manchester United in 2005 led to significant changes in the club's ownership structure. Prior to the acquisition, the club's equity was relatively dispersed, primarily held by fans and investors. However, the Glazers' acquisition concentrated control and financial decision-making power in the hands of a few shareholders. This clarification of property rights not only facilitated the club's ability to attract investment but also enabled the maximization of resource value through the optimization of equity structure and the promotion of equity diversification. However, as previously mentioned, Manchester United paid a service fee of £35 to the investment bank Raine Group to facilitate Sir Jim Ratcliffe's acquisition. For Manchester United, the club itself as an asset should be distinctly separated in terms of property rights from the Glazer family as equity owners. The club's asset property rights primarily involve various resources related to team operations, such as players, brand, stadium, etc., while the Glazer family owns the club's equity, representing residual claim rights and control rights. In the process of seeking a buyer, this activity essentially represents the Glazer family's disposal of their equity, a transaction

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related to equity. According to reasonable property rights arrangements, fees directly related to equity transactions, such as the service fee paid to the investment bank, should logically be borne by the equity seller, i.e., the Glazer family, as these fees are for the smooth transfer of their own equity and are not directly related to the operation and development of the club as an independent asset entity. From the perspective of incentive and constraint mechanisms, the current institutional arrangement may not effectively constrain the Glazer family and the club's management, leading them to not fully consider the club's interests in the decision-making process. Without clear institutional regulations and oversight mechanisms, the Glazer family might prioritize their own interests over the club's long-term development, passing the costs of finding a buyer onto the club. Similarly, the club's management, under pressure from shareholders or driven by their own interests, might fail to object to such unreasonable fee payments or take effective measures to correct them.

Manchester United's modern corporate management system includes financial management strategies such as broadening financing channels and reducing capital costs. This institutional arrangement allows the club to respond more flexibly to market changes. Consequently, in the dynamic adjustment of commercial partnerships, the TeamViewer shirt sponsorship contract has been replaced by a more favorable agreement with Qualcomm Technologies, Inc. According to the new arrangement, Qualcomm's prominent Snapdragon brand will be prominently displayed on the front of the match shirts. This change in partnership has brought significant economic benefits to the club, increasing its annual revenue from £47 million to £60 million (approximately $75 million).

New institutional economics highlights the significant role of institutional changes in promoting enterprise development. Throughout Manchester United's long development history, the club has undergone several significant institutional transformations, notably the transition from privatization to public financing. These institutional changes have had multifaceted positive impacts on the club. On one hand, they have provided stable and sufficient funding sources, giving the club a solid economic foundation for its operations and development. On the other hand, by optimizing the capital and revenue structures, the club's economic efficiency has significantly improved, further enhancing its competitiveness in the market. However, it is important to note that any transformation is not without risks and challenges. For example, the recent deterioration in Manchester United's financial condition is likely closely related to the club's low investment efficiency and blind spots in internal oversight mechanisms.

New institutional economics also places great emphasis on the interaction between enterprises and their external environments. Manchester United, through its well-planned globalization strategy, has successfully promoted its brand worldwide, achieving particularly notable success in the Asian market. This forward-looking international strategy has brought multiple positive impacts to the club. On one hand, it has significantly enhanced the club's commercial value, providing broader development space and more profit opportunities in the commercial sector. On the other hand, it has markedly increased the club's overall competitiveness globally, positioning it more favorably in competition with other clubs. Additionally, Manchester United actively participates in various international tournaments and friendly matches. Through outstanding performances in these events, the club has further expanded its global influence, attracting more fans' attention and support. Meanwhile, Manchester United fully utilizes modern communication channels like social media to maintain close interactions with fans worldwide, further consolidating and expanding its fan base, laying a solid foundation for the club's sustainable development.

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