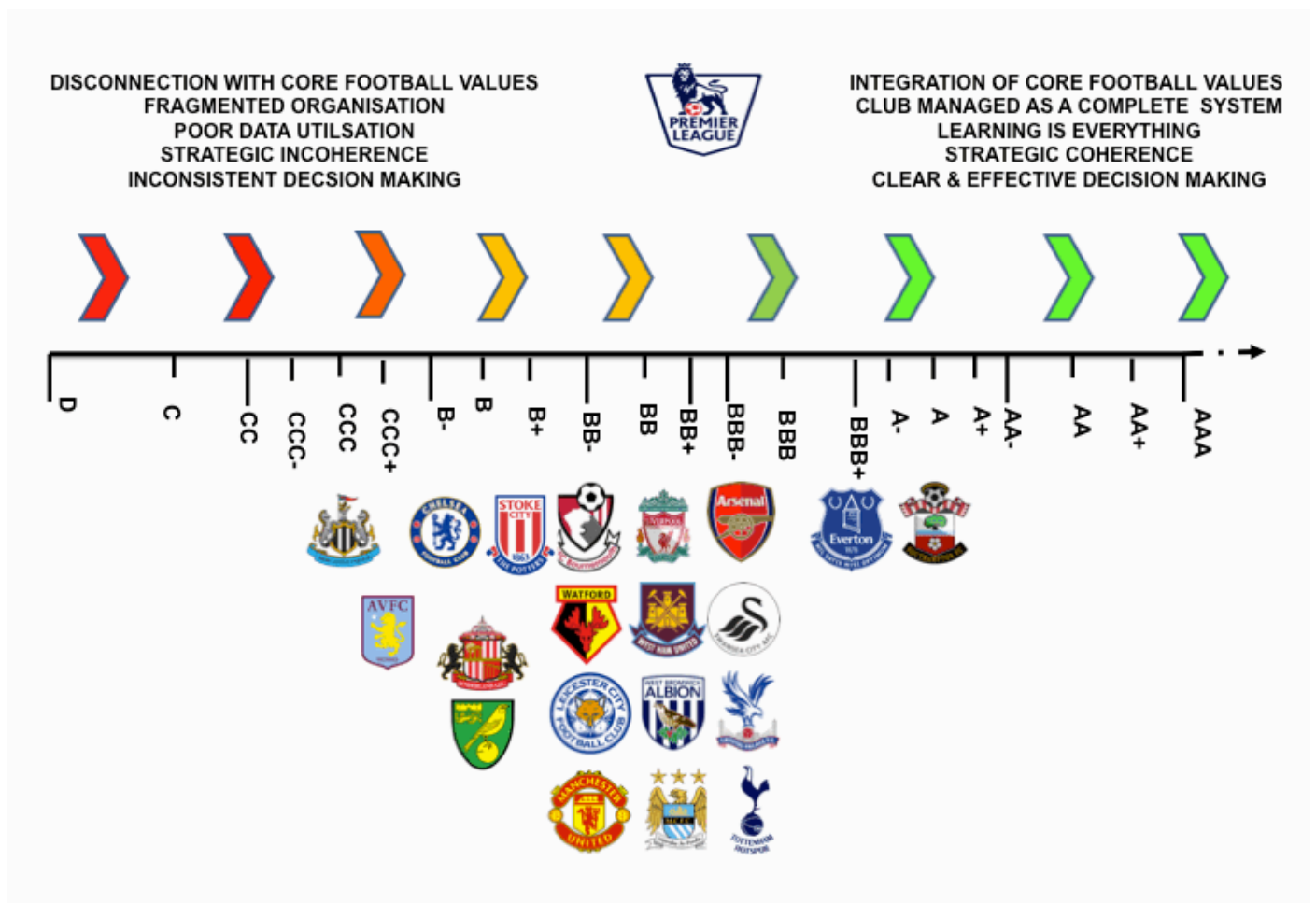


The Premier League 2015/16 Organizational Maturity Index (OMI)



The analysis & rating of management quality at Premier League football clubs

“The era of the gaffer is over. Southampton's incredible rise has destroyed the traditional model of a football club.” Gary Neville

The Premier League Organizational Maturity Index (OMI) 2015/16*

Introduction

The Premier League is a serious business but where does football fit in? Clubs have increasingly become investment vehicles for wealthy investors and a number of clubs have developed themselves into sporting brands that are better recognised now than many other global products. It is the world’s richest football league and, as revenue generation significantly increases yet again through new TV rights, the PL is set to distance itself even further from European counterparts.

For Premier League clubs the importance of retaining that status has never been higher and demands that the management capabilities of each club have to rise accordingly. In order to have any chance of sustaining their position in the long term, every club now has to strive to become a whole system management operation, focused on performance on the pitch that translates into financial value off it. There is no other option - the evidence is clear that money alone does not guarantee success. This is the mature perspective we have adopted in this report.

So, from this viewpoint, the key question today is - how well are Premier League clubs being run? Clubs always attract headlines as they compete to attract and retain the best managers and players. While these are both crucial elements in creating a successful formula they are not the complete picture and can only be as good as the management practice and evidence base clubs use to constantly improve performance. This season particularly, has seen the spectacular, on-field decline of **Chelsea FC** while title challenger, **Leicester City FC**, seemingly emerged from nowhere as rank outsiders who confounded all of the conventional football pundits. With so much money at stake, clubs can no longer afford to take unnecessary risks: they have to adopt more accurate methods for predicting and planning the future with greater confidence.

1		Southampton	A
2		Everton	BBB+
3		Arsenal	BBB-
4		Swansea	BBB-
5		Crystal Palace	BBB-
6		Tottenham	BBB-
7		Liverpool	BB
8		West Ham	BB
9		West Brom	BB
10		Manchester City	BB
11		Bournemouth	BB-
12		Watford	BB-
13		Leicester City	BB-
14		Manchester United	BB-
15		Stoke City	B+
16		Sunderland	B
17		Norwich City	B
18		Chelsea	B-
19		Aston Villa	CCC+
20		Newcastle	CCC

Table 1. Premier League OMI 2015-16

Using our OMS proprietary, organizational maturity rating (OMR) method we have analysed and rated each club's overall performance with respect to the management of their most important asset: human capital (and that means everyone connected to the club, not just the players and managers). This has been carried out against a clearly defined, combined measure of corporate and societal value: defined as creating ***the best possible football experience at the best possible cost, while specifically factoring in external impact.***

The rationale for this report is the significant opportunity for improvements in the management capability and conduct of Premier League clubs that we predict will come through better *human governance* which, in turn, will drive the following value outcomes:

- The creation of more football teams of the highest quality with the best possible use of resources
- Improving genuine competition throughout the whole of the Premier League
- Building and developing more satisfied, committed, and engaged fan bases
- Strengthening and supporting local communities that the clubs touch
- Promoting and supporting participation in the game; making it better for future generations

At the heart of organisational maturity is coherence: a coherent business strategy is one that is totally integrated with a coherent human capital strategy. This is especially relevant in the Premier League with its high concentration of global talent and huge player salaries. Our methodology covers the key criteria for determining the quality of leadership and human capital management capability in such a context that produces superior performance, value and returns for investors.

Stuart Woollard, **Managing Partner, OMS LLP, May 2016**
Stuart.woollard@omservices.org

*See Appendix for detailed information on our ratings scale

“Any market with inefficiency is an opportunity. The fact that football doesn’t have a set or agreed way of valuing talent and is so arbitrary is an opportunity.” Rory Campbell, Technical & Data Analyst, West Ham United FC

Key findings

Levelling the playing field?

The Premier League (PL) has become more and more competitive as large injections of money have enabled clubs to improve their organisational management capability. However, constantly moving the goalposts means that conventional management approaches have to evolve to greater levels of sophistication; they have to embark on a conscious journey towards the highest state of management maturity. The evidence from the [Maturity Institute](#) clearly demonstrates that relatively immature organisations will inevitably fail in time, irrespective of financial strength. The richest clubs will no longer be able to achieve relatively easy short-term success through world-class player and manager acquisition; they have to work at getting their whole system working as one, both off as well as on the pitch.

It is evident that a number of clubs increasingly understand that competitive advantages arise from longer-term talent building and internal development systems, evidence based recruitment and analysis, and the array of performance management tools and approaches that supports sustained success.

We see evidence of a growing number of clubs with relatively modest resources developing capability that will support sustainable, longer-term success, while some of the financially stronger clubs such as **Manchester City** appear to understand the need to build wider management foundations. Many more, however, are not following similar pathways. Additionally, even for those developing management capability, it is the **human management systems dimension** of this long-term building process that is the most difficult to understand, achieve and then maintain. Furthermore, just understanding what you have to do to improve in key areas does not mean you are able to achieve it; everyone in the club and associated with it has to share and act according to the mature vision of what it needs to become.

Mature management and human governance is not dependent on money but on the way owners, managers and players think and act. There is no reason why more mature clubs, who have less money to invest, should not replace those that currently have plenty but who fail to adopt more mature management practice.

Why Southampton FC is the Premier League OMI exemplar

Our exemplars from the corporate community have emerged as organisational role models and Southampton has become one for Premier League teams. However, like Toyota and its legendary *production system*, replication is not easy. Many have

acquired Southampton's talent; managers, players and scouts have all been lured away, yet the club retains its competitiveness, while other clubs have not been able to match its management capability and the robustness of its total system. Why is this?

- Southampton is driven by a common purpose that embeds core football values
- The club's value motive drives values that are embedded and supported across the entire organisation
- The club organises itself as a coherent and cohesive whole human system, that aligns people and practices to its purpose and values
- There is an underlying human capital ethos that prevails, where people are viewed as a source of value not just as a cost
- The club is a 'learning organisation' with exemplary use of evidence to support effective and collegiate decision-making
- The organisation is pre-eminent over any individual with everyone working towards its goals and individuals hired and/or developed to align with the club's values and systems

However, it should be noted that Southampton are rated at "A" on our scale, which denotes significant room for improvement. In this respect, the club is still far from the finished article in terms of management quality and value realisation.

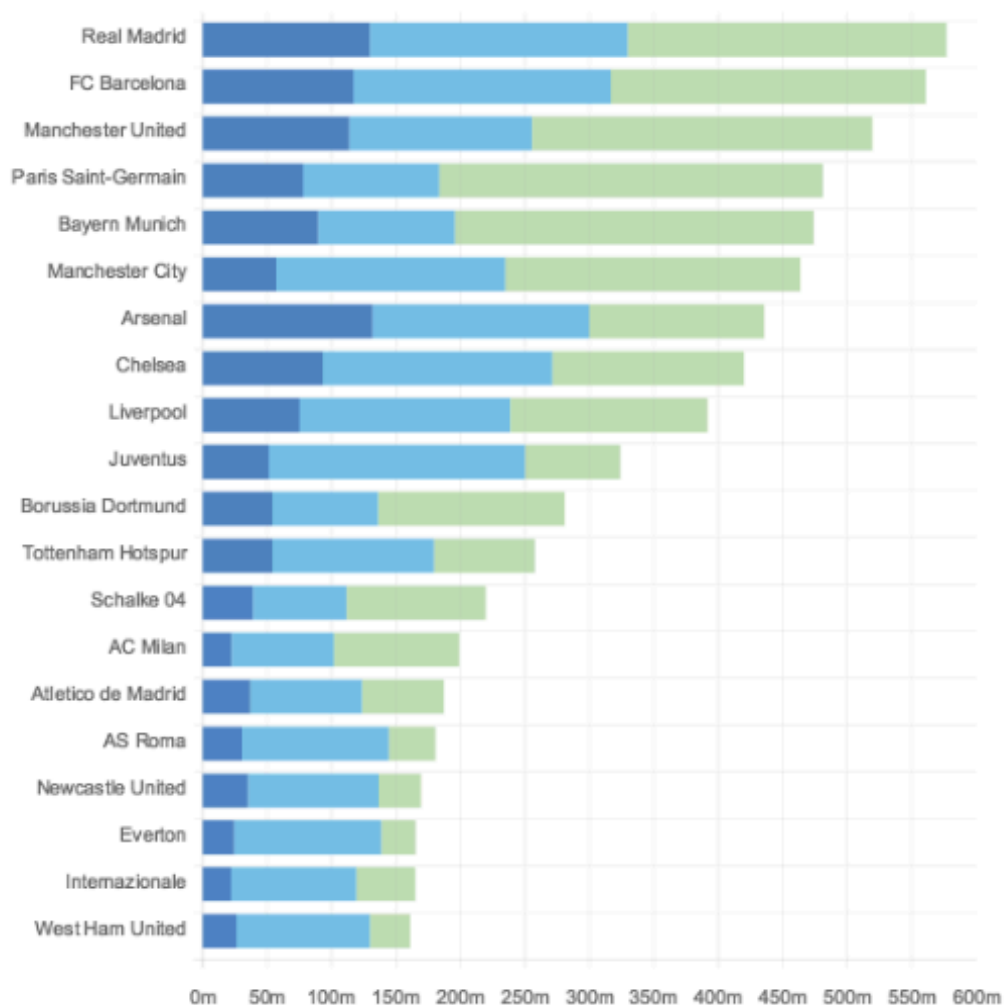
Ownership matters

Premier league clubs are being run by what are currently regarded in conventional terms as increasingly professional business organisations. Yet 'professionalism' is constantly redefined when the stakes are so high. 'Professional' banks just used to have to concern themselves with attracting deposits and lending wisely. Now they have to know exactly what all of their people are doing and ensuring nothing is destabilizing or undermining the whole operation. Increasingly, they have to rethink their purpose and role in society. The same is now true of the global entertainment industry that is football, one that spans huge geographies and cultures. The integrity and probity of owners matters to the future value and long-term health of a club; especially in view of the dramatic increase in potential financial returns from PL status, which is set to increase significantly yet again (there are currently nine PL clubs in the world's Top 20 richest - see Table 2 below).

However, there are a wide variety of owners who have different perspectives, roles, management philosophies and capability. These owners are fundamental to the nature of value creation and realisation at PL clubs. From financial 'opportunists', financially driven sports 'franchise builders' and 'brand' managers to more long-term value creators - owners remain of paramount importance to the value outcomes and cultures that arise at PL clubs. A number of clubs have been sold recently, or are in the process of selling to new owners. The consequences for each of these clubs are likely to be profound.

Table 2: Top 20 Richest Clubs - Match-day, Broadcast, Commercial revenues¹

WORLD'S 20 RICHEST CLUBS BY REVENUE STREAM (€)



Strategic coherence

Most Premier League football club organisations remain poorly governed in terms of overall management quality. Overall, there is a general lack of coherence between organisational purpose, strategy and management practice. This incoherence undermines long-term value and means that there is significant latent value currently being unrealised by most clubs.

Despite being the wealthiest club in the PL, **Manchester United** offers an example of such strategic incoherence. There is clear evidence that the club is primarily concerned with the global marketing of its brand in order to generate revenue, and this has become the core strategic focus of club operations. We view this as

¹ <http://www.cityam.com/232812/worlds-richest-football-clubs-2016-revealed-manchester-united-manchester-city-arsenal-and-chelsea-lead-way-as-premier-league-tightens-its-stranglehold-on-deloitte-football-money-league>

contributing to the failure to build adequate management systems during Alex Ferguson's tenure as first team manager, which has undermined football success since and consequently impinges on its ability to maximise financial returns.

"Beane (baseball) and Wenger (the two most interesting people I've met in sport) have run their clubs longer than almost any of their peers. That's because other good performers move in pursuit of money and trophies — that is, in the hope of becoming "winners". Wenger would love to win but he cares more about shaping players and developing new methods. Arsenal has let him do that almost undisturbed since 1996." Simon Kuper, FT

Similarly, while **Arsenal** has a strong, conventionally-oriented, management team there is little evidence that the club has systemically embedded much of what team manager Arsene Wenger has brought to the club during his long tenure. For example, Arsenal's 'values' arise from Wenger's narrative and approach, and the club has much at risk in terms of continuity. Indeed, we believe that it is likely to have to spend significantly to try and fill important gaps after Wenger's departure.

The very best organisations are able to reconcile why they should contribute to the benefit of society, how this drives value for the organisation itself and how this can only be maximised through the alignment of all human capital through whole system management:

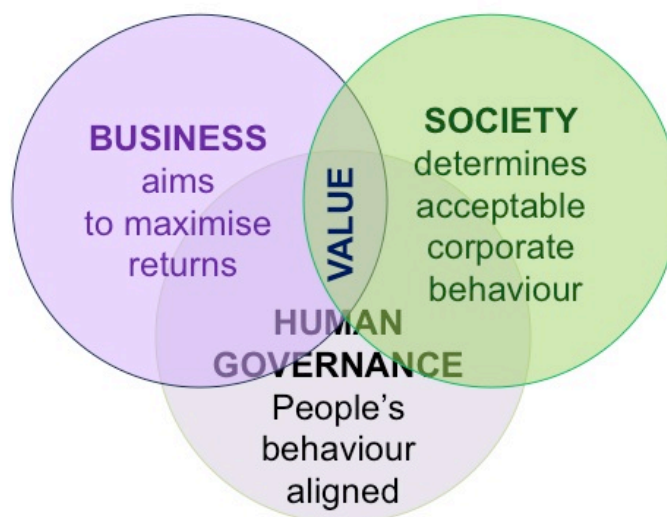


Figure 1. Maximum financial returns are dependent on societal acceptance and effective human governance

Learning - knowledge, innovation, improvement

Evidence based decisions:

PL clubs have embraced the use of metrics and analytics to support decision-making in player recruitment, selection and in training and development. How clubs utilise knowledge is, however, the critical way in which competitive differentiation can arise. Those clubs that understand the strength and limitations of quantitative and qualitative evidence, and are able to use it effectively in decision-making, are able to realise crucial advantage.

For example, the overuse of statistics can obscure the art of management. It is clear that the imported adoption of US “Moneyball” performance metrics by clubs with US owners, without adaptation for a football context, has led some clubs to make nonsensical decisions such as trying to fit certain players into systems clearly not designed for them to flourish.

Never-ending improvement:

More widely, as with any company, it is not just the product or service that requires constant improvement but the entire business operation. In this respect, most clubs have much that can be improved in terms of building organisations that embed a philosophy of never ending improvement and systematising the acquisition, dissemination and use of knowledge to leverage value.

More important still; whatever valuable lessons have been learned they must reside within the club and not be lost when any particular member of the organizational team leaves. This is what happens, naturally, as part of engaging with the maturity process: the club becomes an authentic, learning organisation that will withstand the *slings and arrows* of club fortunes.

Human capital stakeholders: fans, suppliers and partners

Fans:

Bill Shankly, the architect and inspiration behind **Liverpool FC's** emergence as a global football powerhouse argued that the club's bedrock was a “holy trinity” of “manager, players and fans”. It is evident that for many PL clubs, this relationship has become disconnected, with many fan-bases now alienated.

The increasing prevalence of investor owners, particularly from US sports franchises, has meant that most PL club owners view fans more as a source of match-day and merchandising revenue and fail to recognise the wider value that fans can provide to clubs - such as knowledge and insight to help build a high quality football experience and enhancing brand and reputation.

Swansea FC have understood this, ensuring fan representation at Board level, although the current proposed sale to US investors may have significant repercussions for their current operational model unless there is acknowledgement

by new owners that maturity matters. Interestingly, Liverpool’s owners FSG recently back tracked on new ticket prices subsequent to fans walking out of a game in protest – the FSG website now claims it turns “customers into fans” having previously stated the opposite.

Value chains:

With the most mature companies, the value chain (including suppliers) is a fundamental part of an organization’s whole, human capital system. We see little evidence that PL management teams understand or appreciate the nature of managing value chain relationships effectively, for mutual benefit. For example, clubs who have failed to ensure living wages are paid to their own staff or outsourced contractors send a signal that only certain people are valued. This undermines the potential contribution of wider human capital and tarnishes a club’s reputation in the eyes of key stakeholders.

Value opportunities

Talent development:

PL clubs have, and continue to invest significantly in youth academy programs; which has borne fruit for some. A number of teams field youth academy products at senior team level (see table 3²), although this is not the whole story as clubs such as **Southampton** often sell their best youth talent, while others (e.g. **Chelsea**) may have an active loan programme.

However, beyond simplistic metrics, most PL academies churn through young talent without a clear strategy or pathway for players (**Southampton** being an exception). Exceptional talent that makes a PL first team largely remains just that: an exception rather than the norm. Unless youth academies are explicitly linked to the first team with coherent planning for progression, then PL clubs will continue to lose significant value from their programs filling the gap with potentially higher cost external hires.

Building from within or from the outside:

Before acquiring talent from outside a club there is now much more attention paid to using evidence of on-field player performance. Yet we still find little evidence of clubs systemically seeking to ensure ‘player fit’ in terms of their potential to adapt, both within the organisation culturally (e.g. in terms of any embedded values) and locality, and in terms of adapting to new playing systems. This limitation also applies to the external acquisition of non-playing talent such as new managers, coaches and scouts.

Youth team graduates who have made Premier League appearances		
Clubs	1 app.	10+ app.
Arsenal	9	6
Tottenham	9	6
Southampton	9	3
Man Utd	8	4
Newcastle	7	6
Aston Villa	7	5
Everton	6	3
West Ham	6	2
Chelsea	6	1
Liverpool	5	1
Leicester	4	3
Norwich	3	0
Crystal Palace	2	2
West Brom	1	1
Watford	1	1
Man City	1	0
Stoke City	1	0

Table 3. Youth team graduates to PL

² <http://www.skysports.com/football/news/11661/10058264/hold-hold-hold>

Research evidence³ has found that external hires can take significantly longer to adapt and become fully productive with new employers than is typically anticipated. This can be up to 5 years for some roles; much too long for the current timeframe pressures of the PL. Clubs must understand in much greater depth, the full nature of the impact adaptation can have on external hires before they become full contributors to club success. Alternatively, as internal promotions can be far less risky in performance terms and deliver much better value, reviewing the role and importance of academy programs within club structures is likely to be a worthwhile exercise.

There is also significant research evidence⁴ that highlights how individual talent is only one part of performance success and that over 2/3rds of performance can be due to outside factors, such as professional networks and existing infrastructure. PL clubs would benefit greatly from understanding all the factors that contribute to success for external hires to minimise the associated risks and maximise the chance of success.

Player utilisation:

Football club players can contribute to total club value in more ways than just an ability to play well. They can become excellent brand advocates, reputation builders, and provide important links with fans and local communities. Current and former players already help to spot talent, coach, mentor others and provide ideas for improvement. There is some evidence of using players in a wider value context but much appears missing to tap into the full potential value of each club's talent base.

Women teams:

Our analysis found poor utilisation of women's teams as a source of long-term value for clubs. Despite the growth of women's football and the huge existing market in countries such as the US, little is made of this opportunity e.g. the use of tours to grow fan-bases, generate revenue and promote the game in terms of gender equality. This is a very obvious and straightforward opportunity for both financial and societal value currently being missed by most clubs. More effort in this area would send a very clear signal just how much female human capital has to be fully factored into any reference to effective human capital management. It would also be another significant step to full mature management practice.

Material Risks from human capital

Human capital risk arises out of absent, unclear or uncommitted organisational purpose statements. The single most important recommendation of the OMI and this report is that all PL clubs should be required to clearly state their purpose in terms of their widest value contribution to society as a whole. Inspirational purpose statements, and the values and principles that underpin them, permeate all company systems: from decision-making, resourcing, reward, learning and performance management to quality assurance. Only by understanding risk in this

³ <http://knowledge.wharton.upenn.edu/article/why-external-hires-get-paid-more-and-perform-worse-than-internal-staff/>

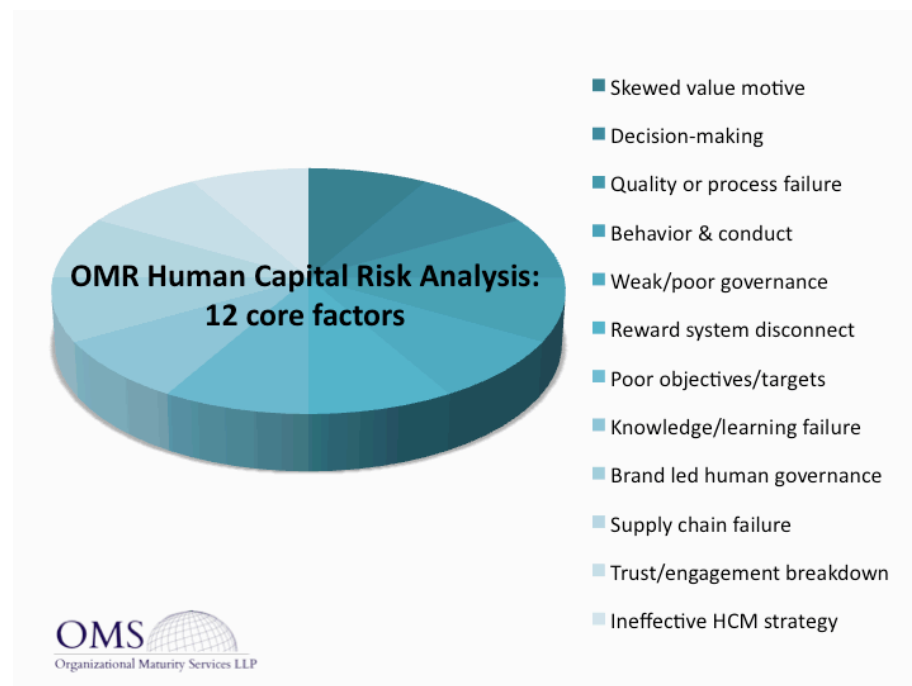
⁴ <http://press.princeton.edu/titles/9128.html>

context can we understand and predict the likelihood of club problems or failure, both off and on the pitch.

PL clubs are ill equipped to assess and manage the significant risks that arise from their own human capital. From on-field player misconduct to wider reputational issues arising, from myriad sources, there is much work to do to avoid materially detrimental outcomes.

We always view risk as systemic and endemic. It can emanate from anywhere within the club or outside of it. Everyone actively involved in a club has to be aware of the potential risks and committed to avoiding, removing or flagging them up. It behoves PL club owners, executives and managers to take responsibility for human capital risks, identify the nature of those risks, proactively respond and constantly send signals that they themselves will not be the cause of any likely risk or club failure that is within their control.

Our own risk analysis considers 12 core dimensions:



We can identify potential risk in each of these categories. As highlighted above, clubs carry significant risk in the transfer market so quality assurance systems are critical. Recently, player misconduct resulted in an unnecessary suspension that potentially jeopardised **Leicester City's** PL title hopes⁵; while the spectre of illegal activity (e.g. the use of performance enhancing drugs may arise at any time⁶ and appears to remain largely ignored). **Sunderland's** CEO was recently forced to resign⁷ after the club

⁵ <http://www.ibtimes.co.uk/jamie-vardy-suspension-could-help-tottenham-hotspur-title-race-says-mauricio-pochettino-1556292>

⁶ <http://www.bbc.co.uk/sport/football/36120459>

⁷ <http://www.theguardian.com/football/2016/mar/08/margaret-byrne-resigns-sunderland-chief-executive-adam-johnson>

failed to adequately deal with a player's criminal offence that came to light internally. We have also seen human capital issues affect club reputations in a wider context, such as the non-payment of living wages to support workers within supply chains.

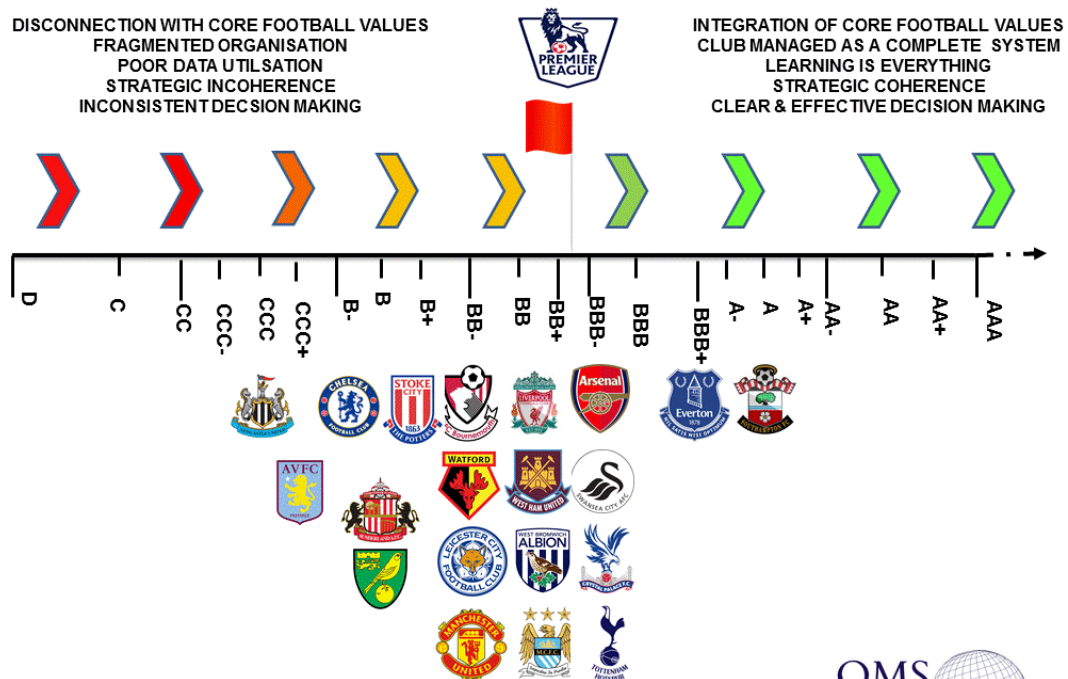
As has been seen in countless corporate scandals and failures, human governance failures are the primary cause, and PL clubs must learn to understand how they arise and how they need to be addressed to ensure that detrimental value consequences do not result.

APPENDIX

OMI Ratings methodology and scale:

Our methodology uses an empirically tested theoretical framework that has been demonstrably linked to value outcomes. It is accredited by the Maturity Institute and is being used in a joint research program with Harvard Law School. The methodology uses a wide variety of both qualitative and quantitative data that provides a factual evidence base to support our ratings. The data covers the key criteria for determining the quality of leadership and human capital management capability that produces superior performance, value and returns. Our OMI ratings are therefore designed to be a reliable and predictive indicator of relative competitive advantage and future performance.

Our ratings scale mirrors the recognized “AAA” 22-point scale used as a measure of corporate financial health, and has been modified for the PL OMI as follows:



About OMS LLP

Management quality and capability has been missing from conventional company research, valuation and investment decision making. Company failures and material value loss occur on a regular basis yet approaches to identify root causes use ineffective and weak diagnostics. Traditional research may identify certain corporate exemplars but not why they are able to generate long-term differentiation and sustained value. OMS fills that gap.

We research, rate and advise on effective [Human Governance](#); a brand new discipline that finally makes whole, the way we examine, value and engage with companies to generate true, lasting value for all stakeholders.

www.omsservices.org



OMS LLP is approved by the Maturity Institute to provide Maturity Ratings, Research and Advisory services