

SCIENTIFIC REVIEW

The Evolving Landscape Towards More Resilient Sports Investments: Institutional Engagement, Tokenization, and Incentives in Professional Football

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ABSTRACT

The landscape of sports investments is significantly transformed, driven by evolving trends and dynamics. The sports industry presents many opportunities and challenges, from institutional engagement to asset tokenization. This article delves into the various innovations and opportunities shaping the future of sports investments, providing a comprehensive view of this dynamic market. Additionally, it explores the role of sustainability in sports, examining how environmental considerations are becoming integral to investment strategies and practices within the industry.

Keywords: sports investments, SMEs, institutional engagement, tokenization, incentives, professional football.

JEL classification: Z

INTRODUCTION

In response to the growing market potential, financial institutions like JPMorgan Chase have established specialized divisions focused on sports investment banking [10]. This division aims to offer advisory and financial services for sports-related investments, including sports team acquisitions, acknowledging the sports sector as a major asset class attracting institutional investors [7]. Despite a downturn in global mergers and acquisitions, the sports industry has seen robust transaction activity, with sports M&A transactions reaching \$22.6 billion last year [1]. This surge in institutional engagement highlights the increasing recognition of the sports industry as a lucrative investment opportunity.

With the collective value of top sports teams in North America and Europe exceeding \$400 billion, financial institutions, which have previously facilitated significant deals in the sports domain, including financing for stadiums, position themselves at the forefront of this lucrative sector, anticipating high valuations for premium sports properties. These examples, along with JPMorgan's engagement in financing the renovation of Real Madrid FC's Santiago Bernabeu stadium and aiding Sir Jim Ratcliffe in acquiring a minority stake in Manchester United, exemplify the bank's extensive reach and influence across various facets of the global sports industry.

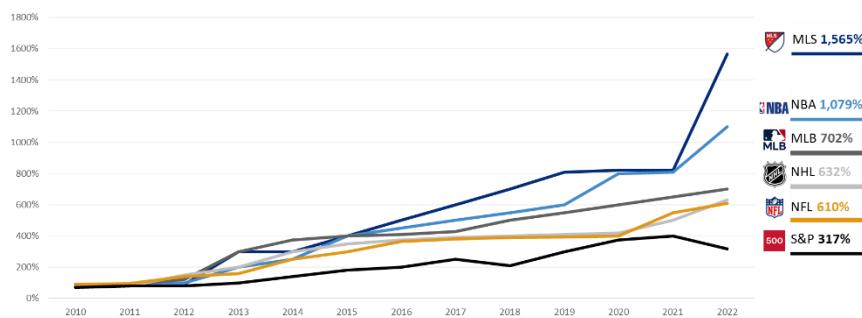


Figure 1 *The Impact of JP Morgan's Funding in Various Sports Sectors*

As institutional investors increasingly seek out and elevate the prices of high-value sports assets, the difference in valuation between these premium assets and those considered non-premium, with less promising growth prospects, is set to widen. Due to cost constraints, this dynamic may exclude some investors from the higher end of the market. However, it could also allow opportunistic investors to explore investments in non-premium properties, where the entry costs are relatively lower, allowing them to make daring investments.

For instance, an institution with a long-term investment horizon may be more inclined to invest in sports properties that show potential for sustainable growth over the years despite initial high costs. Conversely, institutions seeking short-term gains might prioritize sports properties that promise quick returns, even if that means engaging with more volatile markets. As assessed by individual institutions, this intricate balance between cost and value directly influences the financial valuation of sports properties, marking a dynamic interplay between institutional objectives and sports property potential.[5]

Saudi Arabia's strategic initiatives to privatize top football clubs signal a transformative shift in the kingdom's sports sector. These initiatives support the objectives of Saudi Vision 2030 by enhancing the sustainability of sports investments and raising the international profile of the Saudi League [3]. Saudi Arabia is establishing itself as a new center for football excellence by using the Public Investment Fund (PIF) to purchase prominent clubs and broaden the league's global influence. In Brazil, the modernization of football has resulted in transformations within the sport, including improvements to stadium infrastructure and a trend towards commodification and practical application [3].

The initiative, driven by Saudi Crown Prince Mohammed bin Salman, encompasses the Public Investment Fund (PIF) taking over four leading clubs, such as Al Nassr, which boasts Cristiano

Ronaldo as one of its players. This marks a substantial advance in positioning the league as a global sports spectacle.

This initiative is not just about privatization but also about enhancing the league's competitive edge on an international scale. By expanding the global broadcast reach of the Saudi League to 12 networks across 130 countries for the 2023-24 season, the kingdom is aiming to elevate its position in the world of football. Significant investments from the PIF in leading clubs back this expansion; it is part of a concerted effort to attract renowned global players to the league, further solidifying Saudi Arabia as a new center for football excellence.

EXPANDING ACCESS TO SPORTS INVESTMENTS THROUGH TOKENIZATION

The professional football landscape is a vast network composed of numerous interconnected parties, including clubs, players, leagues, regulatory organizations, sponsors, media partners, supporters, and other associated entities. At the heart of this network, football clubs engage in competition within both national and international arenas, sustained by income from broadcasting rights, sponsorships, merchandise, and ticket sales. Players stand as pivotal figures in the spectacle of football; their abilities and on-field exploits crucial to the success and acclaim of both clubs and leagues. Regulatory organizations, including FIFA, UEFA, and various national football associations, govern the sport by establishing rules and coordinating competitions that influence the international football environment. Financial development is bolstered by partnerships in sponsorship and broadcasting, while the fervor, devotion, and financial contributions from fans uphold the whole ecosystem, fostering a vibrant and continuously developing industry that engages spectators around the globe.

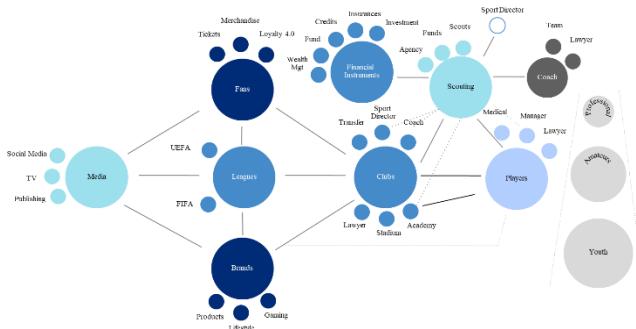


Figure 1 *Football Ecosystem* by Henrik Von Scheel

As certain innovative countries investigate the economic benefits of real-world asset tokenization within the sports sector, others might overlook a significant opportunity to lure and accelerate foreign investments in sports. As the competition for international sports capital intensifies, tokenizing real-world sports assets could significantly expand access to foreign direct investments in this area, fueling economic growth and creating job opportunities within the sports industry. At its essence, tokenization in the sports context is an investment strategy powered by blockchain technology, applicable to assets ranging from sports franchises to stadium rights and athlete contracts.

The primary requirement is that these sports-related assets have a physical presence, enabling them to be segmented, traded, and securely managed on the blockchain, opening new avenues for international investment in sports. Recently, considerable investment has shifted away from emerging markets, leaving the sports sector in these regions significantly undercapitalized despite its potential for high-value return on investment. Furthermore, data monetization is poised to become a significant revenue source for sports entities. The roles of data analytics, artificial intelligence (AI), and machine learning (ML) in sports are expanding, serving a variety of purposes, including enhancing audience numbers, overseeing live event activities, analyzing performances, and

ensuring player fitness and safety, as well as forecasting results and team worth.

By tokenizing sports assets, teams, and organizations could potentially unlock new funding streams, engage with fans on a different level through ownership, and create innovative financial products tied to sports franchises' performance and revenue streams. However, it's important to navigate the regulatory landscape carefully, as this is an emerging field that could face legal and regulatory scrutiny [8].

Given its novelty, the monetization of virtual events is set to evolve through more engaging and interactive experiences, fostering new collaborations between venues and live-streaming services. This evolution also facilitates integrating and monetizing different platforms, linking events, sports organizations, and other types of virtual entertainment, like music concerts or shows, in innovative ways. In growth markets, the development of free zones for sports presents unique opportunities, notably illustrated by the absence of income tax on footballers' salaries in certain regions; unlike the UK, significant tax advantages over other country regimes could be made by high-earning sports performers operating in benevolent "free zone" environments offered by growth markets. This advantage has been leveraged by leagues in these markets, such as the Saudi Pro League, which has actively recruited numerous UK-based players for the first time this year.

Asia's sports sector offers vast growth and investment prospects, fueled by an expanding middle-class population, greater internet access, and an increasing interest in sports and physical wellness. Hosting global spectacles such as the Olympics and the World Cup in Asian nations has increased the emphasis on developing sports infrastructure. Additionally, the emergence of e-sports and digital mediums for sports content delivery and interaction provides fresh channels for user engagement and income generation. Supported by governmental initiatives in numerous countries to leverage

sports to boost national image and public health, Asia's sports industry is on the brink of unparalleled expansion, presenting a compelling opportunity for investors eager to explore emerging markets' potential. In a relatively brief period, growth markets have become hotbeds for the burgeoning sports events industry by organizing new sports leagues.

This thriving sports sector leads to beneficial spillovers and ripple effects across other economic sectors, including tourism, national identity and culture, public health, youth, and social empowerment. Specifically, organizing new sports leagues showcases the value-driven diversity and inclusiveness, strong economic prospects, and cultural appeal of these markets to the international community, thereby boosting the inflow of foreign direct investments (FDI). It also increases the allure and visibility of these regions' tourism sectors.

How it all comes together

Imagine you're a passionate sports fan named Alex. You have long harbored aspirations of acquiring a stake in your preferred sports team or delving into the vibrant market of sports assets. On one occasion, as you were browsing through a favored sports news portal, you encountered a piece detailing an innovative approach to sports investment: Deal-by-Deal RWA Tokenization. This narrative unfolds with a Token Service Provider (TSP), a company that is leading the charge in blockchain technology advancements. They've partnered with sports organizations and financial experts to create a platform where fans like you can invest in sports assets through tokens.

The Issuer, a reputable financial institution, is responsible for creating and offering these tokens. They collaborate intimately with sports organizations to guarantee that the assets undergoing tokenization—be it a professional sports team, a stadium, or

broadcasting rights—are accurately depicted and conform to legal standards. In order to offer enhanced protection for investors such as yourself, a Special Purpose Vehicle (SPV) is established for each investment prospect. This legal structure serves to isolate the sports assets from other financial liabilities, reducing risks and promoting transparency.

As you continue to explore the platform, you learn about Tracker Certificates specific to each Private Equity (PE) fund. These certificates track the performance of investments in sports assets, giving your insight into the potential returns of your investment.

Of course, before you can invest, there are KYC/AML checks in place to verify your identity and ensure compliance with regulations. This step gives you peace of mind knowing that the platform takes security seriously and prioritizes legality and transparency.

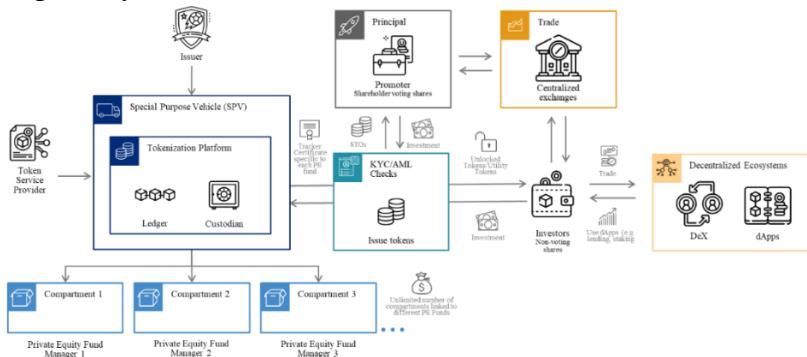


Figure 2 *Deal-by-Deal RWA Tokenization of sports assets by Paul Lalovich*

Now comes the exciting part: the tokens themselves. There are two types you can choose from: Unlocked Tokens and Utility Tokens. Unlocked Tokens signify ownership stakes in sports assets and might also include benefits such as exclusive game access or discounts on merchandise. Conversely, Utility Tokens grant access to unique features on the platform, like VIP services or premium content.

Yet, the innovation extends further. The platform additionally provides investors with non-voting shares, permitting you to invest in sports assets without the need to engage in decision-making processes. This is an ideal option for fans who wish to support their favorite teams without immersing themselves in the business aspects.

Delving deeper, you encounter the wonders of decentralized ecosystems. These are communities where control is not centralized, and decision-making is shared among all participants. In this decentralized environment, you can interact with the platform and other investors in a manner that is both transparent and democratic.

Moreover, when the time comes to trade your tokens, you can do so on decentralized exchanges (DeXs). These platforms facilitate peer-to-peer trading without the need for intermediaries, thus providing you with enhanced control over your investments and increasing market liquidity.

Thrilled by these opportunities, you decide to venture into the realm of sports asset tokenization. You make your initial token purchase, aware that you are not merely investing in a sport but in a slice of history, a passion. Watching your investment flourish, you revel in the realization of every sports enthusiast's dream of becoming an investor.

Analyzing the Future of Incentives and Compensation in Sports

The evolving landscape of sports investments and management brings new opportunities in the commercial aspects, as well as in the ways we can incentivize players and develop alternative ownership models. The traditional ways athletes are paid, and team ownership is structured are rigid and narrowly defined. They are bound to be replaced by innovative approaches that align more closely with the broader shifts in work, transparency, and the role of athletes beyond the playing field.

As an example, Athletes Unlimited challenges the notion of conventional sports league structures with a player-centric model. Athletes Unlimited has pioneered a new way of engaging athletes in the administrative and decision-making processes by abolishing traditional team ownership and centralizing games in a single location. Athletes in this league are stakeholders with equity-like interests, directly influencing the league's direction and success. This model empowers players, fosters a sense of ownership, and aligns their interests with the league's performance, showcasing a new and successful departure from the norm [6].

In line with organizational innovations, athlete involvement in sports is also going through a significant transformation. More athletes are becoming key stakeholders, acquiring ownership stakes in sports teams. This trend sees celebrated athletes like Lionel Messi, David Beckham, Candace Parker and Mia Hamm embracing roles that extend their influence from the court to the boardroom. By doing so, they not only secure their financial futures but also leverage their positions to advocate for cultural and operational changes within teams and leagues. Their involvement underscores a broader shift towards inclusivity, community engagement, and leveraging sports as a platform for social good.

Lionel Messi's contract with Inter Miami FC includes both a salary component and equity in the team, a novel approach in sports contracts aiming to tie a player's financial interests directly to the team's performance and valuation. While equity compensation offers potential long-term benefits for athletes, team owners may be hesitant due to the desire to retain full ownership amidst rising franchise values. This model seeks to enhance player retention, incentivize performance, and align star athletes' interests with the franchise's success. Synthetic Equity is emerging to provide long-term incentives and compensations to professional athletes, utilizing blockchain technology for tokenization.

The sports industry's compensation strategies are also being

reevaluated considering the broader shifts affecting the nature of work and organizational values. Drawing insights from Deloitte's analysis on compensation in the workplace, the importance of adaptability, transparency, and fairness stands out as crucial. These principles suggest a need for sports organizations to design compensation models that reflect the changing dynamics of the sports industry, ensuring that they are equitable, transparent, and aligned with both athletes' and organizations' values. Such approaches can significantly impact athlete satisfaction, motivation, and the overall health of sports as a profession and industry [9].

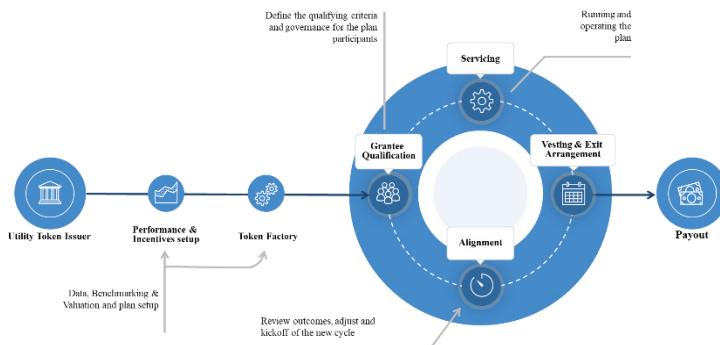


Figure 3 *Synthetic Equity process flow by Paul Lalovich*

This approach offers rewards akin to equity ownership without diluting team ownership stakes. It aims to enhance athlete retention and performance by aligning their interests more closely with the success of their teams. Unlike traditional Equity, Synthetic Equity can be customized and adapted to suit the needs of both the organizations and the athletes, making it a practical solution in the sports industry where franchise values are soaring [4].

This method represents a shift towards more innovative compensation strategies within professional sports, focusing on sustainable athlete engagement and contribution. In the dynamic

environment of professional sports, where market disruptions and organizational changes are frequent, leaders must adopt a flexible approach to managing total rewards systems for athletes. Several factors, including well-being, team culture, and motivation, may prompt a reassessment and redesign of these strategies to better align with the evolving needs of athletes. Transforming rewards programs in sports goes beyond merely adjusting the strategy and offerings; it involves rethinking the structure of the rewards system itself.

The move towards novel compensation tactics presents various challenges. Fluctuations in the economy, regulatory obstacles, and ethical issues concerning fairness and transparency need thorough consideration to guarantee that these emerging models are beneficial equitably to all parties involved. It is imperative for the sports industry to partake in continuous discussions and collaborations to tackle these concerns, ensuring that the evolution of athlete compensation and team ownership rests on a solid base of integrity and sustainability.

Utilizing data and advanced technologies can improve decision-making processes while concentrating on the operational aspects and service delivery of the rewards system, which is essential for enhancing the overall rewards experience for athletes. In response to the evolving landscape of professional sports investments, stakeholders could develop innovative strategies to navigate existing limitations on direct player investments. One forward-thinking approach involves the utilization of blockchain securities for private investments, focusing on the clubs rather than the athletes themselves.

These incentives are meant to align the interests of the players and staff with the club's goals, promoting a successful and financially sustainable operation. However, it's important to structure these incentives carefully to ensure that they drive team cohesion and performance without causing discord or financial strain on the club

[2].

This method allows investments to flow into clubs through blockchain technology, circumventing the direct association with player contracts. Such investments could appear as club shares or blockchain-enabled loans, with terms possibly linked to the financial outcomes of player transfers. This approach ensures continuous financial support for clubs within the regulatory framework, thereby maintaining the sport's integrity. Additionally, it promises enhanced transparency and operational efficiency, representing a significant shift in the financing and investment strategies across the sports industry.

Synthetic Equity and Player-Centric Models in Professional Sports

Synthetic equity could potentially work in professional football (soccer) by providing a structured way to reward executives, managers, or players based on the performance and value appreciation of a football club. For instance, a club could implement various forms of synthetic equity such as:

Phantom Stock: Executives or star players could be entitled to a percentage share of the club's value increase without actual share ownership.

Stock Appreciation Rights: Participants could be rewarded based on the increase in the club's value over a set period.

Value Band Plans: Rewards could be structured to increase with the club's growth milestones, like advancing in leagues or achieving certain financial goals.

Sales Bonus in the Event of Change of Control: A payout could be made to participants if the club is sold or if there is a significant change in ownership.

These strategies could motivate essential personnel by synchronizing their interests with the long-term prosperity of the

club, while circumventing the complexities associated with the distribution of actual shares. This approach would require meticulous legal and financial preparation to ensure adherence to various regulations, including those related to taxation and employment. Additionally, it would require clear communication with the individuals involved to ensure the understanding and acceptance of such incentive plans. Overall, the use of synthetic equity in professional football can provide a compelling alternative to traditional ownership structures and compensation models [4].

Implementing synthetic equity in professional football (soccer) can revolutionize the way clubs incentivize and retain key individuals, including executives, managers, and players. By incorporating structured forms of synthetic equity, clubs can align the interests of these individuals with the long-term success and value appreciation of the club. The following mechanisms could be introduced:

Implementing synthetic equity would require thorough legal and financial planning to ensure compliance with regulations, especially in areas such as taxation and employment. Communicating these incentive plans clearly with the individuals involved would also be crucial to ensure understanding and acceptance.

Athletes' Influence on Ownership and Decision-Making in Football
As the sports industry advances, there is an increasing acknowledgment of the significant role and influence athletes have in ownership and decision-making processes, especially within football clubs. More and more, athletes are considered vital stakeholders who offer unique perspectives and insights that are crucial to the table.

Athletes' Impact on Football Club Ownership

The increasing trend of athlete participation in sports goes beyond mere individual ownership shares in teams; it is also transforming

the structure of football club ownership and decision-making. Over the past few years, there has been a notable alteration in the conventional power relationships within football clubs, with athletes taking on more prominent roles in influencing the strategic orientation and decision-making processes. The impact of athletes' influence on ownership and decision-making goes beyond financial considerations. Athletes contribute a distinct perspective and profound knowledge of the sport, which plays a critical role in guiding key decisions regarding team management, talent recruitment, and overall club strategy. Their direct experience as premier players and their strong ties to fans and the community offer insightful contributions that can promote more inclusive and fan-focused management strategies.

Moreover, the increasing participation of athletes in ownership and decision-making signifies a broader movement towards enhanced inclusivity and diversity throughout the sports industry. By taking active roles in club ownership and governance, athletes are not merely safeguarding their financial interests but are also fostering positive changes within the football community, promoting transparency, equity, and the general welfare of the sport.

This trend of greater athlete involvement in ownership and decision-making is fundamentally transforming the conventional roles within football clubs. Athletes, as significant stakeholders and decision-makers, are set to redefine the future of football ownership, governance, and strategic planning, ushering in a new era of cooperative leadership and enduring growth.

Sustainability in sport

The concept of sustainability is widely recognized in sports development policy and practice. Nonetheless, there is still a lack of clear, practical knowledge about sustainability across various sports organizations globally. The role of globalization in sports

has been a subject of ongoing debate among scholars. Challenges in enhancing the sustainability of sports remain significant. As living standards rise, along with advancements in technology and increased health awareness, sports activities are becoming major industries globally. The increasing popularity of international sports and their sustainable development indicate that sports and other recreational activities are gradually being seen as essential needs for citizens. The strategy of tokenizing carbon credits introduces a market-driven method to tackle climate change in the football industry. This approach encourages football clubs and organizations to reduce their carbon emissions by assigning a financial value to such reductions, offering economic benefits for adopting green technologies and sustainable methods. This shift aids in the move towards a low-carbon economy and helps meet international emission goals, such as those outlined in the Paris Agreement. By incorporating carbon credit tokenization into the reward systems for players and clubs, their economic incentives can be aligned with environmental sustainability objectives. Sustainability is increasingly acknowledged within sports development policy and practice, yet many sports organizations worldwide still lack a clear, practical understanding of it. The impact of globalization on sports continues to spark debates among researchers, and there are ongoing challenges in boosting the sustainability of sports industries. As global living standards increase, along with technological advancements and a growing focus on health, sports are becoming significant industries worldwide. The growing global interest in sports and their sustainable development highlights their evolving role as essential activities for people.

In this context, the strategy of tokenizing carbon credits offers a market-based solution to address climate change within the football sector. This innovative approach incentivizes football clubs and organizations to cut their carbon emissions by

monetizing emission reductions, thus promoting the adoption of green technologies and sustainable practices. Such a shift supports the transition to a low-carbon economy and helps fulfill international emission reduction commitments. By integrating carbon credit tokenization into the compensation and benefits frameworks of football, it aligns the economic incentives of players and clubs with broader environmental sustainability goals.

CONCLUSION

The sports industry is in a period of significant transformation, fueled by institutional engagement, the tokenization of tangible sports assets, and inventive incentive mechanisms. These developments are altering the professional football scene, creating enhanced financial prospects and increased operational effectiveness. As the sports sector continues to develop, stakeholders must stay alert and flexible to make the most of new opportunities. From institutional involvement to innovative reward systems, the landscape of sports investments is brimming with possibilities. By adopting innovation and fostering collaboration, stakeholders are well-positioned to navigate the evolving dynamics of the sports investment environment and explore new pathways for growth, sustainability and achievement. In summary, various trends and innovations are currently defining the sports industry, especially in the realm of professional football.

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